

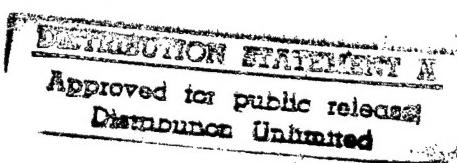
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6 September 1984

# China Report

## ECONOMIC AFFAIRS



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6 September 1984

CHINA REPORT  
ECONOMIC AFFAIRS

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PROVINCIAL AFFAIRS

ANHUI MEETING REVIEWS ENTERPRISE REFORM WORK

OW080910 Hefei Anhui Provincial Service in Mandarin 1100 GMT 5 Aug 84

[Excerpts] According to an ANHUI RIBAO report, the provincial CPC Committee held a meeting from 31 July to 3 August to hear reports on work done to reform industrial and commercial enterprises in the province.

At the meeting, responsible comrades from various prefectures and cities, and from the provincial departments concerned, exchanged information and experience regarding the implementation of the No 17 Document of the provincial CPC Committee and the provincial government. Reports were delivered on the trial-implementation of the system of responsibilities of factory directors in various localities. Guidelines set at the national conference on the second-stage work of replacing profit delivery with tax payment were also relayed at the meeting.

It was pointed out that after 3 months [as heard] of effort, marked results have been achieved in implementing the No 17 Document issued in March by the provincial CPC Committee and the provincial government. According to statistics covering 12 prefectures and cities, including Hefei, Anqing and Bengbu 3,841 enterprises have instituted economic responsibility systems, accounting for 92 percent of the total number of enterprises. Under the various forms of economic responsibility systems, bonuses and certain kinds of wages are linked to economic results of the work done. This is a further step to implement the principle of "to each according to his work." It has solved the question of how to prevent the staff and workers from "eating from the same big pot" of the enterprise, and has aroused their initiative to increase production and raise the economic results of their work.

The meeting pointed out several existing problems meriting attention. First, there is still the influence of "left" ideas. Some comrades are not bold enough to make reforms, but are taking a wait-and-see attitude. Second, work of reform is not developing evenly throughout the province. In about half the enterprises in the province, no responsibility system has been established for work teams and groups and for individual workers. The basic work of these enterprises is also unsound. Third, in some localities, unreasonable requirements have been included in work contracts, and the enterprises often find it difficult to accept them. In addition, the profit rate is too low; in some [as received] cadres are not making sufficient efforts to go deep among the masses to conduct investigation and study and solve their problems.

The meeting pointed out: To further promote the work of reform of industrial and commercial enterprises, it is essential to strengthen leadership and make real efforts to put the work into practice. All localities should conduct a serious checkup, put emphasis on reform carried out within the enterprises, and see to it that economic responsibility systems are implemented for work teams and groups, and for individual workers.

The comrades at the meeting also seriously discussed the question of gradually popularizing the system of responsibilities for factory directors or managers.

Second-stage work for replacing profit delivery with tax payment is of vital importance to the restructuring of our country's economy. In view of this, the meeting urged comrades to earnestly study the relevant documents, and do good propaganda and preparatory work for this on return to their respective localities.

CSO: 4006/699

PROVINCIAL AFFAIRS

BRIEFS

DEVELOPING RURAL AREAS--Hohhot, 19 July (XINHUA)--Cities, industrial enterprises and mines in Inner Mongolia have decided on 31 projects to help the development of the pastoral areas, according to a regional work meeting. The projects, requiring a total of 120 million yuan (about U.S. \$54 million), include coal mines, brick-and-tile works, soda and cement plants, highways, power transmission lines and teachers' and medical schools. They will be completed in 3 years. This will help 24 pastoral banners (counties) to improve industry, transport and culture. Inner Mongolia plans to bring electricity to all pastoral banners by 1987. By then, 70 percent of herding households will benefit from electricity generated by wind and solar energy. The telephone system will connect all town ships. The region also plans to get radio and television programs to all pastoral areas. Sheep and cattle will be shipped out by truck. Technological development centers will be set up in cities and leagues (prefectures) and technical service stations in banners. [Text] [OW190916 Beijing XINHUA in English 0745 GMT 19 Jul 84]

CSO: 4020/172

ECONOMIC DEVELOPMENT ZONES

GU MU INTERVIEWED ON OPENING UP COASTAL PORTS

HK070915 Beijing LIAOWANG in Chinese No 23, 4 Jun 84 pp 8-10

[Article by LIAOWANG reporter Fu Shanglun [0265 0006 0243]: "Open the Door Still Wider, Make Still Bigger Strides--Comrade Gu Mu on Further Opening Up the Coastal Ports and Cities"]

[Text] In the company of Zhang Zhaowen, vice governor of Zhejiang Province, Comrade Gu Mu, secretary of the CPC Central Committee Secretariat and state councillor, spent one week's time, from 27 April to 3 May, inspecting Ningpo City and Wenzhou City, two of the 14 coastal ports and cities which have been further opened up.

Our conversation was on the train.

The first conversation--on 27 April--was on the train from Hangzhou to Ningpo. We started our conversation by commenting on ancient Chinese culture and traditions.

Comrade Gu Mu said: Do you know that some people in Europe are now carrying out research on a topic which is called "reexploration of oriental culture?" It means that the past appraisal of Chinese culture was not good enough and a new appraisal must now be done.

Comrade Gu Mu mentioned his conversation with a foreign scholar during his visit to Europe. He said to this foreign scholar that in the world history of developing science and culture, our Chinese ancestors once occupied a leading position. Many people over the world believe that fire was stolen from the sky by Prometheus, but the Chinese say fire was obtained from sawing wood by the flintman. Is this not very scientific? In addition, there was the story of "divine farmer tasting the hundred kinds of grass;" the divine farmer studied agriculture by tasting the hundred kinds of grass by mouth, distinguishing what was good or harmful to human beings. This was a real scientific experiment and the divine farmer deserved the title of our country's ancient "agricultural scientist." This saves elaboration on the four great inventions of ancient China. Comrade Gu Mu said that after listening to this, the foreign scholar remarked that China was great. The Chinese nation has suffered frequent hardships, but its descendants multiplied in number and were prosperous. This proves that China has made remarkable achievements in science and technology in her history and that China has a great embodying capacity.

After telling this story, Comrade Gu Mu said: While the foreigners are carrying out a reexploration of China, the Chinese people must re-examine ourselves and enhance our national confidence, making contributions to the strengthening of China.

The second conversation--on 3 May--was made on the return train from Jinhua to Hangzhou. At that time, unique scenery of areas south of the lower reaches of the Chang Jiang was seen from the windows of the train. Comrade Gu Mu appeared to be delighted on his return from an inspection of Ningpo and Wenzhou. I asked him to tell his feelings about this trip and he gladly agreed.

He gladly stated: "The cadres and masses of Ningpo and Wenzhou were glad and encouraged that these two cities had been included by the central authorities in the 14 cities which will be further opened up. Only in 10-odd days the initiative of the different levels was highly mobilized and much work was done; this fully proves that the CPC Central Committee's important decision on further opening up the coastal ports and cities compiles with the wishes of both the party and the people and conforms to the historical trend."

#### We Must Further Emancipate Our Minds

Comrade Gu Mu said: Ningpo and Wenzhou have favorable conditions for opening up to the world. There is a considerable industrial and agricultural foundation and both cities are situated on river mouths. Ningpo, in particular, has superior conditions as a port and can be developed into a real big port of the orient. In addition, these two cities started relations with foreign countries quite early, and in the eyes of the foreigners the people of Ningpo and Wenzhou were reputable merchants. Ningpo and Wenzhou are also hometowns of many Overseas Chinese. Due to various reasons in the past, these favorable conditions were not given full play. As far as making use of foreign capital and importing technology is concerned, the minds of some of our comrades are not sufficiently emancipated; they are not bold enough and are bound by too many things. Taking the number of joint business ventures carried out with Chinese and foreign capital which were very popular over the last few years into consideration, there is only one in Ningpo but none in Wenzhou. If this question of understanding remains unsolved, we will not be able to open up new prospects in launching economic and technical cooperation and exchanges with the foreign countries. Therefore, in order to further open up the coastal ports and cities, we must primarily do a good job of mobilizing ideology. We must integrate and sum up past experiences, organize leading cadres at various levels, party members and the masses to study and understand the series of principles and policies formulated since the 3d Plenary Session of the 11th CPC Central Committee on opening up to the world, and study and understand the spirit of the recent important speech of Comrade Deng Xiaoping on "while we establish special zones and implement the open-door policy, one guiding ideology must be prominent, that is, we want freedom and not constraints." We must make it clear to the cadres and the masses that in order to speed up our country's economic development, shorten the distance in technology between our country and the advanced countries of the world, and realize the great strategic goals put forth at the 12th party congress, on the one hand we must

rely on the struggle of all people and carry out construction by giving play to the spirit of self-reliance, and on the other hand, we must emancipate our minds, be bold to make use of foreign capital and import advanced technology and management knowledge. We must understand that the implementation of the open-door policy is indispensable if we want to realize the four modernizations in our country. Only when we unite our understanding can we mobilize the initiative of various aspects, give play to favorable conditions, open up new roads in our economic work and open up new prospects in launching economic cooperation and exchanges with foreign countries.

He continued: some comrades worry that after the implementation of the open-door policy, the living index will rise and the supply of nonstaple foodstuffs will be short; they also worry that it will bring along spiritual pollution, which will affect the healthy growth of the youngsters, and so on. These worries are understandable. However, as long as we are aware of these problems we can solve them and avoid spiritual pollution. We must have faith in our people's and our youngsters' socialist awareness. In Shenzhen, due to the abolition of "eating from the same big pot," the youngsters there have a stronger urge for improvement and enthusiasm for study than those in many other cities in the mainland. Comrades who have been there express affirmative appraisal and this shows that as long as we do a good job in our work, we can effectively resist capitalist ideological erosion. While striving to promote material civilization by making use of western capital and technology, we must simultaneously have confidence in promoting socialist spiritual civilization.

#### The Key Point Lies in the Technical Reform of Enterprises

When talking on the starting point of further opening up coastal ports and cities, Comrade Gu Mu stressed that at present the technical reform of old enterprises is of key significance in making use of foreign capital and importing technology.

He said: Ningpo and Wenzhou are very enthusiastic in opening up zones for economic and technical development, and the initially chosen places are not bad, and plans and drafts have already been prepared. This should be encouraged. However, we must bear in mind that this is not an easy task and we must expect many difficulties. We should not dream that many projects will be promoted simultaneously and the development zones will be fully utilized. This will be impossible because the conditions for investment are still premature. Therefore, as far as the question of zones for economic and technical development is concerned, the present task should be preparation. When to promote this? This depends on the work of these cities and the relevant demands of foreign businessmen. Comparatively speaking, the technical reform of the old enterprises is more urgent. We can promote certain small-scale projects when we are prepared to start, and promote certain medium-scale and small-scale projects which need less investment, which have a fast turnover rate and yields good economic returns. Thus, we can accumulate strength in a better way and lay a firm foundation for opening up new prospects in making use of foreign capital and importing technology.

Comrade Gu Mu said that as far as this area is concerned, certain achievements of Fujian Province are worth popularizing. Over the past few years they have done much work there in grasping the technical reform of old factories. Only Fuzhou alone has imported a large number of projects, such as the complete set of production equipment for U.S. fibreboard of medium density and Japanese programmed telephones--the telephones in Fuzhou now are the most advanced in the country.

#### We must Rely on Ourselves to Create An Environment For Investment

Comrade Gu Mu pointed out: The promotion of the zones for economic and technical development is similar to the promotion of the special economic zones, and a foundation is a prerequisite. The most significant condition for making use of foreign capital is to have a favorable environment for investment. This includes water, electricity, telecommunications and other facilities of daily life. This is called "seven throughs and one smooth" in the special economic zones. If we do not do a good job of this, people will decline to invest here.

When do we get the money for creating a favorable environment for investment which includes promoting basic facilities for the zones of economic and technical development? Comrade Gu Mu said that at present, the country has a tight financial budget and the central financial revenue collected each year is not huge and is mainly used for promoting many large-scale projects. Therefore, we should not expect the state to provide a large sum of money. The central authorities mainly provide the policies: The first is to give preferential treatment to those foreign businessmen who come to invest in our country and provide advanced technology, and a lower taxation rate is set so that they can make profits; the second is to enlarge the self-decision making right of the coastal ports and cities so that they will have full vitality to launch economic activities with the foreigners. All cities must make good use of these policies provided by the central authorities and actively and creatively do a good job of their work.

Comrade Gu Mu said: A paragraph of the report made by the Wenzhou Municipal CPC Committee is worth noting: "The central authorities have given us a good policy, but we must rely on ourselves to make remarkable achievements and overtake others." I was impressed by these words. This is the spirit and aspiration that we need in adopting the open-door policy.

#### Reform of the Economic Setup Must Advance in the Forefront

Comrade Gu Mu said: The further opening up of the 14 coastal ports and cities must be integrated with internal reforms and must advance in the forefront in reforming the economic setup. In carrying out urban reforms, we can refer to certain successful experiences and good methods of the special economic zones. For instance, instituting the tendering and contract responsibility system in capital construction; instituting the contract employment system; instituting the system of hiring management and technical personnel and instituting the floating wage system and various management responsibility systems

and so on. Places where conditions are right can implement these systems on a trial basis. We must also allow enterprises to purchase equipment and apparatus by means of tenders and enliven the scope of circulation.

Comrade Gu Mu said: We cannot rely on the central authorities to have everything prepared for us before we make our start. Comrades of the various areas and particularly comrades of the further opened up coastal ports and cities must proceed from the actual situation to boldly reform the rules and regulations which are incompatible with the actual situation and retard the development of the productive forces. They must take prompt actions in things that they can do. The province must attach special significance and give special support to the reforms of these cities, and the cities must also be flexible with the subordinate factories, enterprises and units as appropriate. Otherwise, we will not be able to do a good job of further opening up. Certainly, all this should be focused on the main prerequisite of improving results and efficiency, being conducive to the development of production and enlivening the economy and further promoting the work of opening up.

#### We Must Grasp the Implementation of the Policy on Overseas Chinese Affairs

Comrade Gu Mu said: In order to do a good job of further opening up to the world, the coastal ports and cities must treat the implementation of the various policies on Overseas Chinese affairs as a significant matter.

He said: The Overseas Chinese and the Hong Kong and Macao compatriots represent a major force in stimulating the four modernizations drive and in accomplishing the unification of the motherland. In the past certain people, under the influence of "leftist" thinking, had some erroneous ideas on the Overseas Chinese and their dependents living in China, holding that "overseas relationships" were complex and not to be trusted. Concerning this, Comrade Deng Xiaoping pointed out in a speech: It is reactionary to babble that "overseas relationships" are complex and not to be trusted. Comrade Gu Mu said: Many Overseas Chinese have been living abroad for several generations. Their preceding generation went abroad because livelihood was hard at home at that time. They had to travel a long way to foreign countries and made their living by running poor businesses with a few knives and scissors. Gradually they consolidated their positions. Even though they have become capitalists now, we must understand that they have been living abroad for decades and have shed blood and sweat with the people of the countries in which they lived, and that they established their businesses through hardship. They have never forgotten their homeland and they earnestly hope that the motherland will prosper and flourish; we must not dampen their enthusiasm. Hence, in implementing the policies on Overseas Chinese, it is first necessary to correct erroneous viewpoints and notions.

Gu Mu said that the current outstanding problem in further implementing the policies on Overseas Chinese affairs is that of the policy on houses belonging to Overseas Chinese. Over the past 2 years much work has been done to hand back these houses to their owners, and the results also have been good. However, there are still quite a number of houses belonging to Overseas Chinese

that have not been returned to their owners. Some Overseas Chinese reflected that they were "homeless in their country" and were unhappy. This problem must be solved as quickly as possible; we cannot delay any more.

Gu Mu said: The implementation of the series of principles and policies by the central authorities since the third plenary session has further inspired the patriotic feelings of the Overseas Chinese and the Hong Kong and Macao compatriots. Many people are eager to invest in the motherland and to contribute to the cause of making China prosperous. However, they also have fears such as fears that the policies might change easily and that there will not be guarantee for investment; fears that the judicial system is incomplete and that the economic interests are not safeguarded; fears that the investment conditions are unfavorable and that procedures to operate are complicated. Therefore, we must continue to do a good job in these areas.

#### The Key Lies in the Question of Talent

Comrade Gu Mu first quoted this sentence of Comrade Deng Xiaoping: "When implementing the open-door policy, it demands that our cadres be understanding persons and not muddleheaded." He continued that the key to whether this major affair of further opening up coastal ports to the world can be a success lies in the cadres and in talent. Relatively speaking, it is talent, not finances and the material, that is the difficult problem. There is a very strong sense of policy in promoting economic cooperation with abroad, and extensive fields are involved. It is essential to have a body of skilled, crack cadres with a good understanding of policy, a sense of the cause, and mastery of professional matters; it is also necessary to have a body of those adept in science and technology, management, finance, trade, law and so on. The coastal ports that are being further opened up to the world and the provincial CPC committees concerned must regard the assignment of cadres and training of talent as a most important matter.

Comrade Gu Mu said: We must not only look for and select talents from the existing scope but must also be good at discovering talents from various social aspects. For example, there are many skillful artisans in Wenzhou, and many people have shown wisdom and strong organization and management abilities in their scope of activities. We heard that the Cangnan County CPC Committee has paid much attention to selecting regional and rural cadres from the specialized households; and farsightedness is manifested in this act. We must not underestimate such talent in society and those old comrades who have retreated to the second line. There are many economic talents in the industrial and commercial federations who have not been allowed to play their roles before. This was because the policies were not correct at that time and these people dared not make their appearances. When we implement correct policies now, they will have ample opportunities to display their abilities. In short, we must fully mobilize the strength of the whole society, mobilizing all positive factors from various aspects. Thus, work will be easy for us.

The conversation on the further opening up of the coastal ports and cities came to an end, but Comrade Gu Mu was still eager to talk. We then shifted

to talk on lighter topics--literature and art. This reminded me of the scene when Comrade Gu Mu visited certain tourist resorts and famous places. I remember clearly that when he visited the Tianyige library in Ningpo he was so engrossed, and was looking at the ancient books and paintings of the Ming and Qing dynasties as if he was enumerating his family valuables.

Comrade Gu Mu smiled and said: I like your job and I have worked as a reporter for a few days; I am fond of literature. When I was young, I loved to read the works of Lu Xun, Guo Muruo, Gorki and Western classics. Advanced literature has led me to follow the advanced road of revolution. Later, I arrived in Beijing and the party organization gave me a job in the Leftist League [Zuo lian 1563 5114]. Some people say that I was the person in charge of the Leftist League in the north during the 1930's, but this is incorrect. To be more accurate, I was one of the major responsible persons of the Beiping Leftist League then. That happened between 1935 and 1936.

Comrade Gu Mu is also very fond of sports, he was very fond of football, volleyball and basketball when he was young. Now he still insists on taking a walk everyday and he is quite strong. During the war of resistance against Japan, and in an anti-"mopping-up" fighting which took place in central and southern Shandong he was shot, and the bullet went into his chest, through the lungs and came out the back. "I was not beaten either. You see my 'capital' was not so poor!" We all laughed at this.

The train passed over the Qiantangjiang bridge and was slowly heading for Hangzhou. It was in the late evening then. While I was looking out of the window, I kept thinking after the implementation of the policy of further opening up the coastal ports, what changed will take place in this triangular zone--Wenzhou-Ningpo-Hangzhou? When millions of ships sail on the East Sea, areas east and south of Zhejiang will bloom in radiant splendor. This situation, perhaps, will not be too far off?

CSO: 4006/701

## AGGREGATE ECONOMIC DATA

### GUANGDONG'S INDUSTRIAL, AGRICULTURAL PRODUCTION ANALYZED

Changsha HUNAN JINGJI XINXIBAO in Chinese 5 May 84 p 1

[Article by staff correspondent: "First Quarter's Industrial, Agricultural Production in Our Province Analyzed"]

[Text] Although industrial production in our province during the first quarter of this year improved every month, the increase rate has been very low and the grand total of output value was only 22.1 percent of the planned figure or only 2.2 percent over the same period last year. This was the province with the lowest rate of increase in the country. Mainly because of the lack of concentrated efforts in January in addition to the shortage of electrical power, the gross industrial output value was only 1,531 million yuan, a drop of 4.8 percent below the same period last year. The measures taken in February and March helped raise the output value by 6.1 percent and 5.6 percent, respectively, over the same period last year. However, because the hydropower stations in Fengtan, Zhixi and Shuangpai reduced or suspended the supply of power because of the water shortage, and because Hubei's power grid could only supply 100,000 KW, many enterprises were forced to suspend production, and nothing could be done to get them out of their passive position.

The characteristics of industrial production during the first quarter were faster growth in light industry than in heavy industry, faster growth in collective industry than in state-owned industry and faster growth in commune-run industry than in either state-run or collective industry. The gross output value of light industry was 4.5 percent over the same period last year. While the gross output value of heavy industry increased by only 0.4 percent, that of state-run industry increased by 2.1 percent, that of collective industry increased by 3.1 percent and that of commune-run industry increased by 8 percent. Among the products of different trades, coal, electronic and pharmaceutical products and machinery continued their upward trend, while the output of metallurgical and chemical industries, which consume more power, was reduced. Of the 80 major industrial products listed in the plan for verification, 39 or 48.8 percent had increased output compared with last year.

Agricultural production was also fairly good. Inspired by the central authorities' Document No 1, the peasants redoubled their efforts in farming preparations. According to a sampling investigation, the structure of agricultural production in the province this year will be readjusted according to the requirements of a large-scale development of commodity production. The total grain acreage will be basically the same as that of last year, although the structure will be slightly readjusted. The acreage for paddy rice will be reduced by 0.82 percent; for sweet potatoes, increased by 8 percent; for miscellaneous grain crops, increased by 6.4 percent; for broad beans, increased by 12.7 percent; and for cash crops, increased by 6.3 percent, including a 9.5 percent increase for sugar crops, a 47 percent increase for tobacco and a 4.8 percent increase for cotton. The peasants are now making use of their front and backyards for growing trees or turning them into small orchards and medicinal herb nurseries. They also dig fish ponds and build or expand their pig pens and chicken farms in the gullies or wastelands. Those who are opening their own stores or factories in the cities are continuing to increase in number, and the development of rural commodity production will be markedly faster. However, because of the prolonged autumn drought and winter freezing, the crops to be harvested in spring this year, such as grain, oil-bearing plants and green manure, did not grow well. Although the acreage sown to spring grain increasing by 9 percent over that of last year, the increase in gross output is not expected to be much more than last year's. The acreage for the harvest of oil-bearing plants will be reduced by more than 120 mu and the output will be reduced by approximately 1 million dan, compared with last year. In winter last year, the acreage for green manure was 18.14 million mu, reduction of more than 2.7 million mu compared with the previous year. According to investigations, we have more than one-third of the third-category seedlings, and this year, some early paddy rice will be short of basic fertilizers.

According to the analysis of the situation of industrial and agricultural production in the province in the first quarter, several problems should be noted. While the industrial output value in the country was increased by 12 percent, the increase in our province was 2.2 percent. We must make very great efforts in order to catch up with the national level. The problem of the power shortage cannot be solved in the near future, and we must have the determination to take the road of increasing production by conserving power. Since green manure does not grow well this year, there will be a serious shortage of basic fertilizers for the early rice. Furthermore, the production and supply of chemical fertilizers are inadequate and it is hard to predict whether the output can be increased. Therefore, if we want to maintain this year's grain output at last year's level of 53 billion jin, we must make very great efforts. In short, grain output is unstable in either the whole country or Hunan, and we cannot relax our efforts in grain production at all.

ECONOMIC MANAGEMENT

REFORM OF URBAN COLLECTIVE ENTERPRISES DISCUSSED

Xiamen ZHONGGUO JINGJI WENTI [CHINA'S ECONOMIC PROBLEMS] in Chinese  
No 3, 20 May 84 pp 5-8

[Article by Lu Shicheng [7120 0013 6134]: "In Carrying out Reform of Urban Collective Enterprises, We Must Not Forget the Characteristics of the Collective Economy"]

[Text] 1. It is Imperative To Reform the Urban Collective Economy

The urban collective economy is an economic organization that takes the initiative in business, assumes sole responsibility for its own profits and losses and implements floating wages and democratic management. It embodies the characteristics of having a small scale with numerous outlets over a broad area, of having the ability to adapt to the changes on the market and of having flexibility in business. After some 30 years of development, it has already become a primary form of our country's socialist economy. It has rendered a great many contributions to satisfying the people's needs for daily consumer items, supporting agriculture, supporting large-scale industry and foreign trade, arranging for labor and increasing financial accumulation. In 1982, the gross value of the collective industrial output of the second light industrial system in Fujian Province was 1.612 billion yuan, 23.75 percent of the gross value of industrial output for the whole province. In 1983, the gross value of output of the second light industrial collective, the main body of the urban collective economy, was 1.008 billion yuan. Its profits delivered to the state totaled 41.57 million yuan, one-seventh of the financial revenue of the whole province. Thus, we can see that the urban collective industry is an important force in realizing the four modernizations.

However, the urban collective economy has traversed an uneven path for some 20 years since 1958. Under the "leftist" ideological influence, it once departed from our country's reality and deviated in orientation. With respect to the system of ownership, it onesidedly emphasized the expansion of public ownership, ignored the objective law that production relations must adapt to the character of the productive forces and vigorously practiced "transition involving the changeover of factories" and "transition involving escalation." Some handicraft production cooperatives were merged into cooperative factories and others were

converted into state-run enterprises. In 1957, there were 4,023 collective enterprises in the second light industrial system in Fujian Province alone. By 1958, only 458 were left, which constituted only 11.3 percent of the total number of original enterprises. In the sixties, more collective enterprises were sent down to the people's communes. Consequently, only 71 remained. During the 10-year period of internal turmoil, the urban collective enterprises were chopped off as capitalist tails. In this way, after several ups and downs and mergers and conversions, the collective enterprises of the second light industrial system changed from collectives run by the people to collectives "run by officials." Because we blindly preferred what was big to what was small, and carried out mergers blindly, those enterprises which formerly had several dozen people became enterprises having several hundred and even more than a thousand people. As a result, the characteristics of being small and decentralized, of being flexible in business and being able to adapt to the changes on the market all disappeared, and production became very passive. There was a widespread situation of few product varieties, poor quality, high costs, poor economic results and slow turnover of funds. From January to October 1983, 217 enterprises of the second light industrial system in Fujian Province suffered deficits. Some of them even had difficulty maintaining simple reproduction. "Engaging in projects that are large in size and collective in nature brought about more and more emptiness." In business management, we copied the state-run enterprises, changed independent accounting and self-assumption of responsibility for profits and losses to unified accounting and state assumption of responsibility for profits and losses, "delivered to the state all the money we made and wrote reports whenever we wanted money" and "obeyed orders in production." The initiative in business of the collective enterprises disappeared, and we lost the spirit of running cooperatives diligently and frugally. As a result, the small factories took on large-scale tasks and the heads and cadres of factories all became one rank. In distribution, the diverse form of the floating wage system was changed to a simple hourly wage system. Labor bonuses were abolished, the egalitarian practice of the "iron rice bowl" was adopted and everyone ate out of the "same big pot." In labor insurance and welfare, we also copied the state-run enterprises in drawing 75 percent for retirement, thus putting too much of a burden on the enterprises. Statistics showed that in the 36 collective enterprises of the second light industrial system in Fuzhou, there were 8,925 workers on the job. There were 3,225 retired personnel, constituting 36.13 percent of the workers on the job. There were 3,225 retired personnel, constituting 36.13 percent of the workers on the job. In the Honghua Canvas Shoe Factory, there were 139 workers on the job and 109 retired personnel, the latter constituting 78.41 percent of the workers on the job. In the bamboo apparatus factory, there were 365 workers on the job and 212 retired personnel. In 1983, the factory suffered a deficit of 32,000 yuan. In order to guarantee that its funds not be used without repayment, the bank took whatever money it could get. As a result, the enterprise was virtually unable to carry out its economic activities because it had emptied that same big pot. In cadre management, democratic election was replaced by the system of lifetime appointment by higher-level party

committees. Democratic management became what the head or secretary of the factory said counted. Workers only worked and took their pay, and did not run their factory or manage their finances.

In short, due to the "leftist" ideological influence, the direction of the urban collective enterprises deviated and their character changed. The characteristics disappeared, and the worker's enthusiasm of being their own masters disappeared. This is the major contradiction existing in the urban collective economy at the present time. If we do not first solve this contradiction, then we will not be able to raise the quality of the enterprises and improve the economic results of the enterprises. Thus, it is imperative to reform the urban collective economy.

## II. Revive and Promote the Characteristics of the Urban Collective Economy

The reform of the urban collective economy should be different from the reform of the state-run enterprises. Under the guidance of the line of the 3d Plenary Session of the 11th Party Central Committee and the 12th Party Congress, we must inherit and promote the fine tradition of the democratic management and diligent and frugal running of the handicraft industrial cooperatives in the fifties, revive the original characteristics of the urban collective economy and enable them to continue to develop under the new historical conditions.

First, we must set up the system of contracting responsibility and revive the basic characteristics of initiative in business and self-assumption of responsibility in the profits and losses of the urban collective economy. This is the basic prerequisite for enabling the urban collective enterprises to become truly the voluntary integrated economic organizations of the laborers, and it is also the key to overcoming egalitarianism and improving quality. Only when the urban collective enterprises persevere in taking the initiative in business and in assuming responsibility for profits and losses can we integrate the prosperity, decline, success and failure of an enterprise with the individual interest of the staff members and workers. The production 'good or bad'--and the service attitude -- superior or inferior -- directly affect the economic interests of the individual staff members and workers. Thus, the staff members and workers will be able to persevere consciously in the style of hard work and plain living in running the cooperatives self-reliantly, diligently and frugally and will have a strong sense of enthusiasm and responsibility in striving for production development. The cadres will be able truly and actively to work to run the enterprise properly and will not seek personal privileges. The masses will love the factory as though it were their home and will regard the difficulties of the collectives as their own difficulties. The cadres and masses will truly be of one heart and will make a concerted effort in carrying out production. The enterprises will have a tremendous motive force in developing production. At the present stage, labor is still the primary measure of survival. Material interest is a factor determining the enthusiasm high or low in

production by the broad masses of laborers. Of course, "this definitely is not advocating that we disregard the state, the collective and others in struggling exclusively for our own material interest and definitely is not advocating that we only look at money."<sup>1</sup>

Reviving the practice of taking the initiative in business and assuming responsibility for one's own profit and losses in the urban collective enterprises does not mean simply reviving the historical features of the urban collective enterprises of the fifties. That is unrealistic. Rather, on the basis of the present level of productive forces, the urban collective enterprises should have vitality, that is, an adequate intrinsic motive force for developing production. They should have the ability to maintain a proper balance in the development of the entire national economy. They should have the ability to adapt to the changes in the market. In recent years, inspired by the system of responsibility in agriculture, the economic system of contracting responsibility also appeared in the urban collective enterprises. Monopoly was changed to contracting, that is, state assumption of responsibility for profits and losses was changed to all kinds of economic system of contracting responsibility such as joint production, joint sales and joint profits. This overcame the egalitarian practice of eating out of the same big pot among enterprises and among staff members and workers and "cured the lazy and awarded the good." In addition, after having the power to take the initiative in production and business and the power to distribute profits, the enterprises changed their "officially run" collective nature and became truly collective enterprises. The staff members and workers truly realized that they were the masters of their enterprises and that the means of production were their collective properties. Contracting has integrated the interests of the state, the collective and the individual and has guaranteed that "the state will have the largest share, the enterprise will have the next largest share and the individual will have the smallest share." Contracting has established close ties between the production and sales of the enterprise and has changed the previous business thinking of slighting the two ends (the purchase of raw materials and the sales of finished products) and of emphasizing the middle (production). It has unified production, sales, distribution and even consumption by the consumers and has enabled an enterprise to change from a production mode to a production and business mode. As of 1980, the collective enterprises of the second light industrial system in Fujian Province began to implement on a trial basis the economic system of contracting responsibility. In these few years, among the enterprises which have been implementing the economic system of contracting responsibility, a new situation appeared in which the enterprises "tried by every means to fill gaps, actively worked hard to supplement the products in shortage, created characteristics in light of local conditions and raised their level through technological transformation." Statistics showed that in 1983,

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1. "Selected Works of Deng Xiaoping", p 297.

the collective enterprises of the second light industrial system throughout the province created 3,619 products with 4 new features. Of these, we brought about 120 new products of all grades, adopted 31 new technological projects and carried out 125 projects of technological transformation. In the last 2 years, we won awards in 136 scientific and technological projects of all grades, of which 3 were awards from the Ministry of Light Industry, 4 were awards from the provincial people's government, 3 were silver-medal awards from the state, 20 were ministerial awards for outstanding products and 51 were provincial awards for outstanding products. A new state of three "highs"--"high production enthusiasm of the staff members and workers, high efficiency in the work of the cadres and high economic results of the enterprises"--appeared. After popularizing the economic system of contracting responsibility for an all-round scale, the collective enterprises in the second light industrial system of Nanping City scored the following results: From January to October 1983, compared to the corresponding period in 1982, the output value was up 12.6 percent, sales are up 21 percent, profits were up 4.5 percent and taxes were up 22 percent. From January to October 1983, compared to the corresponding period in 1982, the collective enterprises in the second light industrial system of Fuding County scored a 17 percent increase in output value, a 23 percent increase in sales, a 26 percent increase in profits and a 25 percent increase in taxes. After implementing the economic system of contracting responsibility, the Putian City Second Light Industrial Machinery Plant (collective) resuscitated the enterprise and made three large steps in 3 years. In 1980, output value increased by 53.8 percent. In 1981, it increased by 36.5 percent. In 1982, it increased by 78.7 percent. Practice has proved that the economic system of contracting responsibility is a fine system that benefits the state, the people and the collective.

Second, reviving and promoting the characteristics of small, decentralized and flexible business of the urban collective enterprises are also important aspects in the reform of the urban collective economy. The position and role of an urban collective enterprise in the national economy determine its characteristics of being small and specialized, specialized with diverse capabilities and flexible in business. Some urban collective enterprises produce accessories for as well as products that serve large-scale industries. The majority of them, however, produce articles of daily use for the people. With the improvement of the people's livelihood, the people are making greater and greater demands for these products and changes are taking place more and more rapidly. Only by adapting to such a situation will an enterprise have the prospect of development. Thus, urban collective enterprises can only be "small but specialized and specialized with diverse capabilities" and bring into full play the characteristic of "a small boat that can reverse its course easily." The urban collective enterprises which produce accessory products for large-scale industries must also be "small but specialized and specialized with diverse capabilities." This is determined by the needs of social mass production. With the development of science and technology, the structure of modern industrial manufacturing has become more and more complicated, with a higher degree of precision and a faster rate of

product updating. To solve these problems by relying on state-run, large-scale enterprises is not possible and also not economical. Thus, it is necessary to implement a specialized division of labor and cooperation within the scope of the whole society. Although they are of small scale, urban collective enterprises which specialize in producing several products will derive skill from practice, which will be favorable to making technological breakthroughs. On the other hand, with the development of the technology of mechanization and automation, we can attain a very high level of labor productivity in producing several products. Also, if production involves a large quantity, low cost and single product, it also involves relatively simple technological facilities and relatively simple management.

The level of the leading cadres and cadres in business management of our urban collective enterprises is unsuitable for handling the hodgepodge factories with diverse undertakings of the past. The diverse undertakings require enterprise management personnel to have not only professional knowledge in many areas but also the ability to organize cooperation among diverse undertakings and to keep informed of the changes of the undertakings on the market. However, most of the business management personnel of our urban collective enterprises only have a junior middle school education. A few have only a primary education. There are only roughly 0.2 percent of the professional management personnel who have a level at and above a secondary professional school education. The situation of attending to one thing and losing sight of another is unavoidable. Thus, in integrating with the system of responsibility, we must redefine those enterprises which were of too large a setup and with too complicated undertakings into economic accounting units and redetermine the scale of these enterprises. In 1982, after redefining the 18 collective enterprises of the second light industrial system of Changding County with too complicated undertakings and too a large large into 29 enterprises, the output value for 1982 was 39 percent higher than for 1979. Under the circumstances when the prices of raw materials and wages were raised, the profits were up 17 percent compared to 1979, and labor productivity by all personnel was up 32 percent compared to 1979. In 1983, Longyan City divided the hardware factory into the following four factory cooperatives--the bicycle parts factory, the hardware products factory, the electromechanical installation plant and the watch and meter repair factory--and implemented specialized production. The output value was 24.3 percent higher than it was in 1982. The electromechanical installation plant fulfilled 99 percent of the plan for the whole year in the first half of 1983, a 97 percent growth compared to the corresponding period in 1982. Practice has proved that the reform of urban collective enterprises must realize the characteristic of being "small but specialized and specialized with diverse capabilities."

Third, persevering in distribution according to labor, reviving diverse forms of the wage system and implementing labor bonuses. The urban collective economy is in organization that takes the initiative in business

and assumes sole responsibility for its own profits and losses. Thus, it has the right to decide its own profit distribution according to the party's policy. In the past, under the "leftist" ideological influence, the wages of the urban collective enterprises were arbitrarily fixed to be necessarily lower and not higher than the wages of the staff members and workers of the state-run enterprises. This in reality negated the characteristics of the urban collective economy. In the urban collective economy, there exist different stages of productive forces including manual labor, semi-mechanized labor, mechanized labor and some automated production. At the same time, there is a wider range of skill among the staff members and workers. Thus, it is impossible to implement the unitary hourly-wage form of the state-run enterprises. Instead, we can only adopt appropriate wage forms according to our own characteristics and conditions. The wage income of the staff members and workers can only float with the business results of the enterprise. Under the prerequisite of "more income for the state and more retention by the enterprise," the individual can appropriately obtain more pay. In those enterprises where production and business are good, the income of the staff members and workers can be higher than that of the same trade in the state-run enterprises. According to the statistics of the Putian Municipal Second Light Industrial Bureau, 18 out of 33 collective enterprises of the second light industrial system implemented a collective and individual piece-work wage system, 8 implemented a profit-sharing proportional-wage system and only 1 implemented a system of fixed wages plus above-quota piece-work wages. The remainder implemented the system of linking remuneration to production or linking remuneration to sales, thus overcoming the bad practices of the "iron rice bowl" and the "same big pot," mobilizing the enthusiasm of the staff members and workers and promoting the development of production. In the first half of 1983, the output value was 17.4 percent higher than it was in the corresponding period of 1982, profits were 41 percent higher and taxes were 48 percent higher. After changing to the form of piece-work floating wages, the gross output value for the first half of 1983 of the Xianyou Medical Equipment Factory was 29.2 percent higher than it was in the corresponding period of 1982, while profits were more than 5 times higher, setting a peak record.

Labor bonuses at the end of the year are an important feature of the urban collective enterprises, are a form of reward for the labor of the staff members and workers and are also the concrete embodiment of the staff members and workers as the masters of the means of production. On the one hand, labor bonuses are tied in with the collective ownership of the means of production. As the owner of the means of production, the enterprise has the right to divide the portion of profits after taxes among the staff members and workers. On the other hand, labor bonuses are tied in with the gross amount of labor provided by the enterprise to society. Whichever enterprise provides a greater gross amount of labor to society, and whichever enterprise obtains more profits, then that enterprise can implement labor bonuses. The amount of the labor bonuses the staff members and workers obtain is determined by the quantity and quality of labor of the staff members and workers inside an enterprise. In light of the results of the last few years, the implementation of labor bonuses has played a

marked role in strengthening the business management of the enterprise, correcting the labor attitude of the staff members and workers and raising the enthusiasm of the staff members and workers in actively perfecting their skills and taking part in management.

Fourth, reforming the system of leading cadres of the urban collective enterprises and reviving democratic election. Those who are not competent can be dismissed to return to their production posts. Those leading cadres who exercise able leadership and who bring about marked results for the enterprise, we can give wages that are higher than those of the staff members and workers. The Qinyu Bicycle Parts Factory in Fuding had poor economic results in 1982. In 1983, the price of the bicycle chain was again lowered throughout the country. A loss of 320,000 yuan was indicated in the original plan and the enterprise was faced with a predicament. Through democratic election, sensible individuals who could create new situations came in to mange the enterprise. As a result, the cost was lowered, and output as well as output value both were doubled those of 1982. The enterprise extricated itself from the predicament. On the one hand, the staff members and workers truly felt that they were the masters of their own enterprise and were able to think about how to run the enterprise well in all matters. On the other hand, the cadres were able to establish close ties with the masses and preserve in taking part in collective labor, maintaining the style of hard work and plain living and placing themselves under the supervision of the masses. Thus they avoided the feudal patriarchal system of managing the enterprise and overcame the practice of managing affairs according to the will of the officials.

### III. We Must Take the Road of Integration

In the reform of the urban collective economy, we not only must correct the situation in which production relations fail to adapt to the productive forces but must also correct the situation in which the system of management fails to adapt to the development of the collective economy. Most of the urban collective enterprises are under the administration of the county and city. Some are under the administration of the ward and neighborhood. Others are under the administration of various trades and undertakings. Superficially, this administrative system seems to be suitable to the small and decentralized characteristics of the urban collective enterprises. In reality, it fails to solve the horizontal relationship among the enterprises and fails to solve the problem of the overlapping construction of factories and of a comprehensive balance. Often, in light of local interests, the existing cities, counties, wards and neighborhoods will blindly develop enterprises. Consequently, a phenomenon in which the small fish feeds on the big fish and the backward crowds out the advanced will appear. Furthermore, on the one hand, these localities will seek independence and do things their own way. On the other hand, toward the subordinate enterprises, they will practice centralization of power and treat those enterprises as their subsidiaries. What can be done? The approach we should take lies in transferring power down to the enterprises. Under the circumstance in which the jurisdiction

and the system of ownership do not change, we should implement integration across trades and undertakings, across regions and across the systems of ownership with the economic center and the large-scale factory as the backing. Such an integration is favorable to improving the quality of the urban collective enterprises. First, it overcomes the inadequacy in the supply of raw materials to the urban collective enterprises. A portion of the raw materials can be solved internally by the integrated body. Another portion of raw materials can be solved by the integrated body on behalf of the enterprises. Second, after integration, we can carry out readjustment in the product structure; organize specialized cooperative production; gradually solve the problems of "small and comprehensive" enterprises, blind construction and overlapping production; raise the competitive ability of the products; and adapt to the changes on the market. Third, integration will be favorable to the technological enhancement of the urban collective enterprises. On the one hand, the integrated body can organize technological training. On the other hand, technological cooperation and exchange can be carried out inside the integrated body, thereby raising the technological quality of the urban collective enterprises. Fourth, integration will be favorable to the improvement of the quality of management of the urban collective enterprises. At present, the management of the urban collective enterprises is in a state of extreme confusion. After its formation, an integrated body can readjust the participation in management by personnel on the one hand and organize training on the other.

In short, the implementation of integration across trades and undertakings, across regions and across the systems of ownership with the economic center and the large-scale factory as the backing not only can solve the horizontal relationship among the enterprises, and solve the problem of comprehensive balance, but can also raise the quality of the urban collective enterprises.

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ECONOMIC MANAGEMENT

CONTENT, MANAGEMENT OF ECONOMIC REFORM DISCUSSED

Beijing JINGJI KEXUE [ECONOMIC SCIENCE] in Chinese No 1, 20 Feb 84 pp 36-39

[Article by Li Zhenhuan [2621 7201 1403] of Lanzhou University: "Several Questions Regarding the Reform of Our Country's Economic System"]

[Text] I.

What is meant by the reform of the economic system is the reform of the system, forms and methods of economic management. It indicates what styles and methods will be used to organize and manage the various kinds of economic activities in the economic realm of the entire society. For example, on the basis of the level and development of our country's productive forces, how should the system of ownership and its various forms of economic activity be constituted? How should our economic management organizations be set up? How should economic responsibilities and rights be delineated? By means of what style can our enterprises' responsibilities, rights and benefits be integrated? How can the economic benefits of the state, enterprises, central and local governments and individuals be adjusted and so forth?

The reform of our economic system must have a theoretical basis, and our theory is developed in the course of reform through the unceasing summing up of experience and the heightening of people's awareness. The basic principles of Marxism tell us that a society's economic development is the process and result of the movement and development of the contradiction between productive forces and production relations and of the contradiction between the economic base and the superstructure. In the socialist period, production relations and productive forces and the economic base and superstructure have aspects that are suitable to one another, and also aspects that are not suitable to one another. To change continually the portion that is mutually unsuitable between production relations and superstructure, it is necessary to engage in a reform of the economic system, and this constitutes the necessity of reform. Regarding this question, the people's understanding is still not completely alike. Some people think that reform has already been good for the strengthening and perfection of the socialist system, and there are also people who consider that the situation following reform will not be as good as the past and that it has weakened our country's socialist economic system. To some differing viewpoints of this kind, we should grant a theoretical reply.

Would it be all right not to reform the economic system? It would not.

First of all, from the point of view of solving the contradiction between productive forces and production relations: Reforming the economic system requires that we eradicate from the economic realm the old production relations of the past and certain aspects and links of the superstructure and try to achieve a coordinated development between production relations and productive forces and between the superstructure and the economic base in order to suit the development of production and realize the goals of socialist production. Our basic socialist system is completely correct, but there are some concrete systems, concrete links, concrete methods and even concrete policies that are not suited to the development of our productive forces, and these, then, are in need of reform. To speak of agriculture, in rural areas the implementation of the joint family contract responsibility systems and the development of diversification have clearly enabled the buying power of the broad masses of our country's peasants to be greatly increased. Our country's agriculture has already developed from a self-sufficient or semi-self-sufficient natural economy in the direction of a consumer economy, and the exchange of goods and materials between the city and the country has greatly deepened and broadened, added to which the standard of living of people in the cities has steadily improved and their need for all kinds of consumer goods and production materials has continuously increased. The appearance of these new circumstances has caused our old, original system of commerce and handling of goods and materials to become, with time, less and less suited to the needs for developing industrial and agricultural production. In this way, there has been brought about in society an overstocking of some industrial and agricultural products, and some commercial products are also out of stock and unobtainable. A proportion of the products produced by peasants, due to the fact that they cannot be timely purchased, has led to the peasants having difficulty in buying things, and some consumer goods and industrial products needed by the peasants, due to the fact that channels into the countryside have not yet been timely developed, are also unobtainable; this situation constitutes a blockage of the channels of circulation. This then clearly illustrates the necessity for reforming our original system of circulating commercial products, and in particular we must reform the system of sealing places off by carving the countryside up into [closed off] areas, which is an impediment to the exchange of goods and materials. Production determines circulation, but if a good job is done of circulation, it will serve to promote the development of production; and if it is not done well it will cause commercial products to be overstocked and unmarketable, having a negative effect on the turnover of funds and impeding the development of industrial and agricultural production. From the point of view of the situation at present, the enlivening of circulation has already become the crux of economic reform.

Second, an examination from the point of view of solving the problems of our major contradictions: As is pointed out in the "Resolutions Concerning Certain Historic Questions of the Party Since the Founding of the PRC," "after socialist remodeling has been fundamentally completed, the major contradiction that our country must solve will be the contradiction between the daily increasing material and cultural needs of the people and the backward social production." With this in mind, we must shift the emphasis in our work onto a path having

economic construction as its core and make a great effort to develop our productive forces. In the area of circulation, we should get a good hold on the links between production and need, dredge out the channels of circulation and do a good job of handling large quantities of commercial products, storing them up, regulating their volume and transporting and selling them; this will enable us, to a considerable degree, to ameliorate the contradiction between production and marketing, promote the development of production and at the same time diminish society's losses of wealth brought about by the over-stocking of goods and by goods being out of stock. Circulation departments can establish avenues of communication directly with the consumer (including production consumption) and have broader and closer connections with the masses, and this can serve to deliver messages on market conditions on behalf of producers, enabling production departments to understand market price quotations, quantities needed by the market and the direction in which needs are developing. This can serve as one of the major bases for production units to formulate their production plans. These purchasing and marketing activities will promote the consumer economy to develop toward marketability and desireability in order to fulfill the daily increasing material and cultural needs of the people. In the wake of the increase in the money income of the industrial and agricultural masses, their demand for consumer goods is also increasing. In order to enable the people to buy the commercial products they really want and in order to enable their money income to obtain its proper use, it is required not only that commercial products be supplied in sufficient quantities but that there also be a full range of models and types and that, moreover, the styles be novel, beautiful and tasteful, the quality good, and the prices reasonable. Only in this way will commercial products have a proper marketing outlet and have the effect of promoting production. In the wake of the socialization of household duties, there is a need for more and better high-quality, moderately priced commercial products.

Only by fulfilling these needs will we be able to stimulate consumption, absorb society's purchasing power and enable both society's original and its newly increased purchasing power to be realized. Only in this way can we promote production, guide consumption, cause the economy to flourish and achieve a balance between production and consumption. In that case, why are savings increasing to such a great extent in our country at present? One of the causes is that the masses have money but cannot buy the products they need. Of course, savings can be used for state construction, but ultimately the state will still have to give it all back; if the demand for consumption can be satisfied and increased, then that sum of money will be taken back by the state. For this reason, if we want to stimulate consumption and promote production, then we must engage in economic reform, cause the value of commercial products to be realized as quickly as possible and better fulfill the people's material and cultural needs.

Third, from the point of view of the serious circumstance of the old economic system fettering the development of our country's economy: Our old economic system was a highly centralized economic system established under the guidance of an ideology that ignored the production of commercial products, ignored the circulation of commercial products, ignored the principle of allotments according to the amount of work done and ignored mass consumption. Many

malpractices existed in it, and it was not able to bring the superiority of the socialist system into full play. This old economic system had a considerable effect in the period after our state was first founded, but in the wake of the development of production and the continuously growing needs of the masses this kind of old system revealed its malpractices more and more, was not good for mobilizing the enthusiasm of local areas or enterprises and was lacking in vitality. For example, centralized procurement with the exclusive right to sell, eating out of the big pot, using the iron rice bowl, egalitarianism, yamen-type methods, etc, caused enterprises to be without motivation within and to lack the ability to exert pressure without and to lack the initiative and flexibility they should have had, seriously hindering the development of a commercial-goods economy. To speak of the practice of eating out of the same pot, it actually nourishes sluggards, and the sluggards rely on diligent people to support them, with the result that the fruits of diligence are not for the state, since when society provides surplus products these are eaten up, consumed and wasted by the sluggards. In a sense, these sluggards exploit the diligent staff and workers. Under these circumstances, some enterprises inevitably turn into lazy factories and lazy shops, and these factories and shops for a long time relied on their brother units to make the profits to maintain them, relied on taking advantage of their brother enterprises and relied on well-managed enterprises to pay revenues to the state so that they could muddle through. Thus unreasonable system of nourishing sluggards should be negated. Again, to speak of the iron rice bowl, among theorists there are some who believe that it illustrates the superiority of the socialist system, but this is obviously false. Our socialist principle of allotment is allotment based on the amount of work performed, and those who do not labor do not eat. Lenin said that this is one of our basic socialist principles. Some people sum up this concept of the iron rice bowl as being characterized by 10 maladies:

- 1) It does not allow the rate of increase of production materials to match the rate of growth of the labor force.
- 2) It cannot implement the principle of allotment according to the amount of work done.
- 3) It cannot allow people to bring their special abilities into play and put their talents to full use.
- 4) It is not good for carrying out the scientific and cultural education of the workers.
- 5) It has eroded the workers' sense of being the masters of their own fate and encouraged the psychology of taking advantage and muddling through.
- 6) It is not good for the training of specialized personnel.
- 7) It is not good for enterprise management of their staff and workers.
- 8) It has stifled the path of planning for one's own profession and is not good for enlivening markets.
- 9) In making labor source arrangements for the sake of making arrangements, labor productivity has universally declined.
- 10) It has opened the back door to improper practices for the sake of a minority of people who have the authority to allocate the labor force.

The reform of the economic system that we are engaged in, then, must chance a whole series of unreasonable systems such as eating out of the big pot and carrying the iron rice bowl and put into effect the Marxist principle of making allotments according to the amount of labor performed. The responsibility systems now in effect are for the purpose of solving these problems and curing the malpractices in our system.

To sum it up in a single sentence, the reform is closely bound up with the four modernizations, and without reform it will not be possible to realize them.

## II.

In order to enable our economic development to have the motive force within and to have outside pressure and have vitality, just what things does our economic reform need to reform?

What is meant by reforming our economic management system is to reform a highly centralized, practically all-inclusive economic management system that has essentially no connection with commercial products and excludes the effects of market mechanisms and price laws. The distinguishing characteristic of the old economic management system was that of the "eight unities": a financial system of unified taxation and unified expenditures; a foreign trade system of unified imports and unified exports; a commercial system of unified purchases and unified sales; and a labor system of unified contracts and unified allotments. Under these circumstances, enterprises lost the regular strength of being able to adjust proportional relationships on their own initiative, became subordinate to the administrative/management organizational structures and were not relatively independent economic entities, so that rights, responsibilities and benefits were separated from one another, causing enterprises to lose their inherent motive force. From this one can see that the economic management system currently in force, from the macro-economic point of view, has led to an imbalance of proportions and false reporting and exaggeration and was responsible only to the leadership and not to the masses. From the micro-economic point of view, it leads to a situation in which enterprises do not have sufficient vitality, and the enthusiasm of staff and workers cannot be mobilized and to attitudes such as "whether we work or not, we will still get three meals" and "whether we study or not, it's all the same." With more "unconscious" people around and just a few who are seriously doing their work, the situation has already reached the point where it has to change.

In reforming the economic management system, there are two main areas of problems that must be solved: one is to solve the problem of the relationship between the state and enterprises, which reflects the contradiction of a relationship between the presently operating superstructure and the developing economic base that is both suitable and not suitable; the second is to solve the problem of the relationship between enterprises and staff and workers as well as the problem of the relationship between people within the enterprises, which reflects the contradiction of a relationship between the presently operating production relations and the developing productive forces that is both suitable and not suitable. To speak of this last point, the productive forces are the most dynamic element in the economy, and within the productive forces, active labor is the most dynamic element. The vitality of the enterprises exists in its staff and workers and, established on the basis of conscientious labor, it has precisely reflected the superiority of the socialist system. Socialism must rely upon the conscientious labor of the entire body of staff and workers and must eliminate whatever portion of its production

relations and superstructure that fetters the development of its production relations and superstructure which is able to promote the development of its productive forces. This is the reform required by our age.

The guiding policy of the reform is: in everything, "proceed from the basis of reality and comprehensively and systematically change; change resolutely and with the proper procedure"; eradicate the old conventions and restrictions; establish a new methodology; and oppose excessive uniformity. The area involved in reform is very great; it relates to the subordinate relationships within the ownership system and mutually related, hard-to-solve problems within enterprises and departments, and we must coordinate all areas and resolutely and synchronously coordinate the reform. The starting point of reform is in the enterprises and the central point is to solve the problem of the productive forces, but this cannot be separated from the coordination and support of the areas of finance, credit revenues, prices and labor. For example, in order to encourage enterprises to develop new products, in pricing we should put into effect a system of high prices for high-quality goods and low prices for poor-quality goods, and in credit we should be able to provide preferential treatment to those deserving of it. Also, in order to dredge out the channels of circulation and solve the problem of commercial products being unmarketable, rural supply and marketing cooperatives and other collective commercial enterprises and individuals can all manage and can transport and market commercial products that remain after the state's procurement tasks have been fulfilled. And also, in order to cause enterprises to improve labor management and to allow them to exercise considerable autonomy, we should enable enterprises to have the authority to establish or cancel certain units and administrative/technical offices in order to adapt to and promote the development of production.

The basic direction of the reform is: taking the state-run economy as the dominant factor, we must actively launch various forms of cooperative economy and appropriately develop self-employed workers. Under the premise of persevering in a socialist planned economy, we must bring into play the supplementary role of market regulation. The state, in formulating its plans, must fully consider price laws, utilize the economic levers of prices, revenues and credit, deal correctly with the benefit relations among the state, enterprises and staff and workers and guarantee the continuous increase of the state's financial revenues. Regarding the various kinds of enterprise-economy activities, we should provide various levels of policy-making authority and expand the democratic right of the staff and workers to manage their enterprises. In the macroscopic economy, the state exercises strict planning control of major economic activities (such as the scope and direction of investment, major construction projects and the increase of consumption funds); in the microcosmic economy, regarding the smaller portion of secondary importance (such as the production and circulation of small commercial products), it must liberalize, enliven and combine the centralized, unified leadership of state planning with the initiative and flexibility of enterprises. We must carry out comprehensive planning, consider the entire situation in making arrangements and proceed in a synchronous, coordinated manner. Only in this way will we be able to cause the reform to be good for the development

of production, promote technological progress, improve management and administration and increase economic benefits.

The point of emphasis of the reform of the economic system, to sum up, has two areas: one is to change the style of managing things (i.e., producing products that are easy to sell); and the second is to change the style of allotting consumer materials (which involves the question of the relationship between the enterprises and the individual, putting into effect a policy of rewarding diligence, punishing laziness and overcoming egalitarianism).

The core (center) of the reform is:

1. Doing away with egalitarianism. This includes two levels of meaning. The first is to reform management and administration, and the second is to reform the system of allotments, considering at the same time the benefits of the state, enterprises and staff and workers. For example, putting into effect the system of substituting taxes for profits delivered to the state was done to solve the problem of the relationship between the state and enterprises. The aims of the reform are to enliven the economy, improve labor productivity, liberate our productive forces and promote the development of the building of the four modernizations. What is meant by this "enlivening" is to be able to utilize economic laws freely and is also the inevitable result of managing things on the basis of objective economic laws--what Engels referred to as "striding forward from the realm of necessity to the realm of freedom."
2. Liberating the productive forces. Economic reform must start at the heart of the economy, and by taking the full mobilization of workers' enthusiasm as the key factor, make enterprises become truly independent economic entities. The previous economy of departments (i.e., the vertical direction of central authority) and the local economy (i.e., the horizontal direction of local authority) were both unsuccessful. Our present reform is to seek a system that will combine both central and local authorities and to seek an inherent motive force within the enterprises. Using centrally located cities as support and establishing economic areas and good methods suitable for liberating the enterprises' productive forces and mobilizing the enthusiasm of the staff and workers. By coordinating central and local authorities, a rational economic network can be formed. For example, in the Shanghai economic area, including such areas as Wuxi and Changzhou, the city exercises leadership over the countryside, and each supplies what the other needs. Thus it becomes a regionalized economy with its own special characteristics.
3. Causing enterprises to be invigorated. Enterprises are the cells of the national economy, the arena where workers and production materials are combined and the source of society's wealth. If enterprises do not have vitality, and flexibility, and if staff and workers do not have enthusiasm, and a sense of responsibility, then the development of the economy, the increase of wealth, the wealth and strength of the state and the people's happiness become merely empty words. The reform of the past was merely a matter of writing articles on the relationship between government departments and local areas, and there was never any outlet for their expression. Now, in starting with the reform of enterprises and using that as our breach to enter through, we have gotten a

good hold on the basic reason for the problems. We must grant enterprises an appropriate degree of autonomy and considerable advantages in order to guarantee their enthusiasm. We cannot allow them to engage in "as soon as we suffer a loss, we contract; as soon as we contract, we make a profit; as soon as we make a profit, we take it; as soon as we take it, we suffer a loss again," thus bringing about a new cause for worry.

Only by acting in accordance with the above-detailed guiding principles, directions, points of emphasis and cores of action and with the problems in need of solution will we be able to embark on a Chinese-style socialist path, and only then will we be able to build a socialism having Chinese characteristics. Traveling a Chinese-style socialist path includes two different elements: one is socialism, and the other is Chinese characteristics. Traveling a Chinese-style socialist path includes two different elements: one is socialism, and the other is Chinese characteristics. For us to accomplish this point, first of all, requires that we engage in a study of socialism that leads to its essence, so that we can distinguish between those things which are universal and necessary to the establishment of socialism (such as a system of public ownership of property, a planned economy and a system of allotments according to the amount of work performed), those which are also particular in nature and those whose time has past or which are not appropriate to this locale and must be discarded. Second, it requires that we make an unprecedented, thorough-going investigation and study of our own nation. We must understand our country's national characteristics in order to endow socialism with Chinese characteristics appropriate to the laws of China's development. This includes history, culture, ethnic customs, psychology and lifestyles, presently existing politics and economics, the natural ecological environment, etc. That is, we must find the most excellent style of combining universal Marxist principles with China's concrete practice in building itself up. Internationally, there is no single pattern we can follow in this, and to speak of any one country, there also does not exist any set pattern for us. In joint economic activities, for example, there is certainly not any stereotyped pattern. At present all types of joint economic activities are in the process of developing: there are jointly-run factories, joint ownership, joint ventures, compensatory trade, technical cooperation, etc, and there are in effect unified leadership, joining investment, joint management, joint responsibility for profits and losses and separate sharing of profits, thus enabling them to have every characteristic of the trades.

In sum, the standard for evaluating whether the reform of a system has been good or not is to see whether it is good for building a form of socialism that possesses Chinese characteristics, whether it is good for promoting the economy and the flourishing and development of the nation and whether it is good for raising the material and cultural level of laboring people and for making the people happy.

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THEORY OF ECONOMIC REFORM DISCUSSED

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[Article by Zhou Shulan [6650 0647 5571] of the Research Institute in Industrial Economics of the Chinese Academy of Social Sciences: "Pooling Financial and Material Resources and Reforming the Economic System"]

[Text] The Pooling of Financial and Material Resources and the Reform of Economic System Cannot Be Opposed to One Another.

The Party Central Committee, based on the objective requirements of economic development, has come up with a policy of pooling our financial and material resources. Over the last few years, the situation of our country's funds being scattered has been relatively serious; the Central Committee's revenues have not increased; key construction projects have lacked funds and, if things continue this way, it will place the enterprise of building the four modernizations in extreme difficulty. In the past the management of funds was characterized by too much centralization, and an appropriate amount of dispersion was necessary, but now the funds are too scattered. For many enterprises, the basic number of contracts taken on is too low, and their profit and surplus too high, greatly reducing the state's revenues. For example, state-managed commercial enterprises in Chongwen District of Beijing Municipality in the first 4 months of this year had their profits increase by 3.64 million yuan over the same period last year, of which 640,000 yuan, or 17.7 percent, were profits turned over as revenues to the state; 2.27 million yuan, or 62.2 percent represented the portion of profit retained by responsible departments and the enterprise; and 730,000 yuan, or 20.1 percent, represented award money for staff and workers. With respect to the relationship among the state, the enterprise and individuals, the enterprise took the largest portion, the individuals took the medium amount and the state got the least. Some places are also trying to think of ways to reduce the state's revenue still further. For example, some places have stipulated that enterprises in allotting their profits will implement a "three threes" system, with the amount for the repayment of loans, the amount retained as profit and the amount turned over as state revenue each amounting to one-third of the total.

Due to this dispersion of funds, though over the last few years the rate of increase of the state's income has not been low, nevertheless the state's revenues not only have not increased correspondingly but have decreased. From

1978 to 1982, the national income increased from 301 billion yuan to 424.7 billion yuan, an increase of 27.8 percent, while revenues decreased from 112.1 billion to 110.7 billion yuan, a decrease of 1.3 percent. The situation of the dispersion of materials is also serious; in 1982 of domestically produced resources the proportions available for distribution by the state were 53 percent of steel products, 57 percent of wood products and 25 percent of cement, all far less than the quantities the state needs to control. This circumstance, along with the state's revenue difficulties, has meant that the funds and materials for key construction projects lack a guarantee and that basic construction apart from central planning has proliferated.

At present the proportion of the national income occupied by stable revenues is also too low. For the 30 years from 1953 to 1982, the average proportion of national income occupied by revenues was 33.4 percent. During the First 5-Year Plan it was 33.6 percent; during the Second 5-Year Plan, 38.6 percent; from 1963 to 1965 it was 34.2 percent; during the Third 5-Year Plan it was 31.5 percent; during the Fourth 5-Year Plan, 34.4 percent; and during the Fifth 5-Year Plan, 32.4 percent. For the years 1959, 1960 and 1978, in which the proportion was highest and for which the proportions were 39.9, 46.9 and 37.2 percent, respectively, the proportion was obviously too high. After 1978 there has been a reduction each year; in 1979 the proportion was 31.9 percent; in 1980, 28.4 percent; in 1981, 25.8 percent; in 1982, including the income from the state's treasury notes, 25.5 percent and, not including the income from the state's treasury notes, 24.5 percent. According to studies by relevant departments, under the present conditions in our country, the expenses borne by the state's finances for the salaries of staff and workers and the costs of maintaining simple reproduction and paying back banks and the principal and interest of foreign loans as well as the expenses of national defense and the cost of foreign aid added together will constitute about 21-22 percent of the national income. Capital for basic capital construction arranged for in the national budget, even if we tighten up a bit, will still amount to about 7 percent of the national income. And so the proportion of our national income made up of revenues over the last few years really ought to be restored back to 28 percent, or even a bit higher.

Compared with other countries, at present the proportion of our country's national income made up of revenues is also low. For the Soviet Union and the Eastern European countries, excepting Yugoslavia, revenues make up about 60 percent of the national income. To take 1980 as an example, for the Soviet Union the figure was 65.5 percent; for Bulgaria, 64.9 percent; for Czechoslovakia, 63.4 percent; for Poland, 62.8 percent; for Romania, 58.6 percent; and for Hungary, 72.2 percent. The revenues of these countries include items such as funds for social insurance, and so their scope is larger than that of our country's revenues. The governments of Western capitalist countries, in order to interfere actively in their economies, also concentrate the national income into the state finances to a comparatively great degree. Some people estimate that if the revenues of the central and local governments of Western capitalist countries were added together, and adjusted for comparison with our country, then the degree to which those countries' national incomes are concentrated into state revenues would be over 30 percent. The figure for America in 1980 was 33.3 percent; for Britain,

43.4 percent; for France, 44 percent; for West Germany, 43.8 percent; and for Japan, 30.3 percent. Although the specifications for these figures are not the same, and one cannot draw simple analogies from them, nevertheless one can see that the degree to which they concentrate national income into state revenues is really higher than the degree to which our country presently does.

The above-detailed circumstance clearly indicates that the concentration of financial and material resources is imperative under the circumstances. Only with the concentration of financial and material resources will we be able to guarantee the funds and materials needed for key construction; only such concentration will be good for a favorable balance between revenues and expenditures and for a fundamental improvement in the financial/economic situation; and only then will we be able to guarantee the realization of our strategic objectives for economic development 20 years from now. Only then can our country's building of socialist modernization develop successfully and be victoriously completed. So one can see that this policy decision made by the Party Central Committee is extraordinarily timely and correct.

It should be pointed out that the concentration of financial and material resources is also necessary for the further reform of the economic system. We know that the successful progress of reform requires a series of conditions, important among which is that the major proportionate relationships in the national economy be comparatively coordinated. Our engaging mainly in readjustment over the last few years and emphasizing that reform must be subordinated to readjustment have been due to the fact that serious imbalances in the proportional relationships of this national economy are limiting the progress of reform, causing some reform measures to be difficult to put into effect (such as price reforms on a comparatively large scale) or difficult to achieve their expected goals (such as expanding the autonomy of enterprises). At present the backward condition of energy and communications is still a serious problem in the development of the national economy, and if the necessary financial and material resources are not pooled, then the construction of these key departments will be without any guarantee, and the phenomenon of proportionate imbalance that is still existing in the national economy not only will be hard to overcome but will become more serious. From this point of view, the concentration of financial and material resources will provide a favorable condition for further reform.

The further reform of the economic system also requires that the state control comparatively ample financial and material resources, because reform involves great transformations in the production relations and in the superstructures, the solutions of a great many problems need to be explored and, even with thorough investigation, study, planning and preparation and with reform on a grand scale it is hard to avoid the appearance of all kinds of unexpected matters. Only if the state has control of ample financial and material resources will it be able to strengthen the national economy's ability to withstand dangers and deal comparatively well with all kinds of unexpected matters. At present our national economy's ability to withstand risks is comparatively poor, and this limits the pace of reform. Putting into effect the policy decision of pooling financial and material resources will be good for the state's control of the financial and material resources needed for

further reform. Of course, increasing the state's revenues must depend mainly on increasing economic benefits, but overcoming the dispersion of funds is also very necessary. The present situation of the central authorities borrowing money from the localities to meet its needs is not good for any fundamental improvement in the financial and economic situation. Moreover, pooling financial and material resources in order to guarantee key construction of energy and communications departments is also an important condition for bringing the potential of presently existing enterprises into full play and improving their economic benefits.

The reason why some people oppose the concentration of financial and material resources and the reform of the economic system to one another, and consider that the former must of necessity be an impediment to the latter, is because they have a one-sided understanding of reform, i.e., they equate reform with the dividing up of power and advantage. Our country's traditional economic system causes power to be overly centralized, and enterprises lack relative independence and the necessary autonomy. For this reason, in the course of reform, appropriately increasing the enterprises' managerial autonomy and enabling them to have relative independence are completely necessary. However, as reform is certainly not just a matter of dividing up rights and advantages, still less can we engage in decentralism and liberalism. The reform's principle is to concentrate what should be concentrated and disperse what should be dispersed. Our country and population are large and our foundation slim, and too much centralization is of no advantage. But it is also necessary to maintain the necessary degree of centralization, for only then can we maintain the state's unity, bring the superiority of the socialist system into play, concentrate the necessary financial and material resources and set up some enterprises that are of benefit to the state and the people.

#### Why Is It Said That This Pooling of Resources Is Not Just Treading the Beaten Path?

Although the pooling of economic resources and the reform of the economic system are not diametrically opposed, there are contradictions between them. For example, at present in order to concentrate financial resources it is necessary to place necessary limits on the enterprises' profits and surpluses. In order to concentrate material resources, it will also be necessary to place necessary restrictions on the enterprises' right to sell certain products. Appropriately, along with this, some limitations must be placed on the self-determination authority of enterprises and certain other types of management and administration. Even if these limitations are all necessary at present, one cannot deny that this is the contradiction between concentrating financial and material resources and reforming the economic system and is the reason why the pace of expansion authority is one aspect of the reform of the economic system is also being limited. From the point of view of our country's past history, there has been without stint a continuous recurrence of situations where once things have become unified, they loosen up again, and once things are liberalized they become centralized again, following a pattern of "once things become unified, they begin to fall apart; once they fall apart, there is a call [for more liberalization]; once there is a call, things are liberalized; once things are liberalized, there is chaos; and

once there is chaos, things get unified again." At that time the reason why an overly centralized economic system was in effect was also related to the objective requirement for pooling financial and economic resources to speed up the pace of construction. Although at present it is clear that it is necessary to persevere in the reform and that in emphasizing this pooling of financial and material resources we must also persevere in the reform and continue to advance, nevertheless we also cannot ignore, much less deny, the contradictions existing between the pooling of financial and material resources and the reform of the economic system. And we must conscientiously study and deal properly with these contradictions, enable them to help each other forward and prevent some people, in the course of their practical work, from treading the beaten path.

In that case, why say that this pooling of financial and material resources is not treading the beaten path? First of all, there will be no change in our persevering in carrying out every basic policy of the reform. For example, in the countryside, the combined family production contracts and responsibility systems will not be changed. In the cities, expanding the enterprises' autonomy will also not be changed. Regarding production, circulation areas and technical innovation, there also will be flexibility in terms of policies, and market adjustment under the direction of planning will continue to be implemented. Second, exhaustive consideration and estimations have been made of the quantity of funds to be pooled; the requests that have been proposed are moderate in degree; the methods are proper and, moreover, will be implemented area by area and according to the proper procedure and will be the responsibility of each and every area, department and unit. The correct implementation of these policies will not discourage production and management units or dampen the appropriate enthusiasm of staff, workers and peasants. Third, we will persevere in the direction of the reform. In order to accomplish this, we have clearly defined the tasks of continuing to proceed with the reform, i.e., we must adroitly guide our actions according to circumstances, keep what is of advantage and eliminate that which is harmful and further perfect the reform, using planning and management, administrative interference, legal tactics and economic leverage to guide the enterprises' economic life in a direction that is of benefit to society as a whole and enabling the reform to develop strongly.

#### Dealing Properly with the Relationship Between the Pooling of Financial and Material Resources and the Reform of the Economic System.

In order to solve correctly the present contradiction between concentrating financial and material resources and reforming the economic system and to continue to advance the reform under the circumstances of pooling financial and material resources, it is necessary to find links that will cause the two to be combined and that will be good both for concentrating funds and goods and materials for guaranteeing key construction projects and for continuing the reform of the economic system and enlivening the economy, and it will be especially necessary to get a firm hold on the key links among them. One can find many such links, such as correctly determining limits for the amounts of financial and material resources to be pooled, so that along with guaranteeing the funds that need to be controlled by the central authority, we can enable

the localities and the enterprises also to have their required funds, thus stopping up all the leaks that have a negative effect on revenues, eliminating the various exorbitant taxes and levies on enterprises, and bringing all kinds of economic-lever effects into play, including the correct usage of such economic levers as the revenues, prices, credit, wages and rewards. From the point of view of the present situation, we should especially get a good hold on the link of reforming the tax system and make it the major link in our present reform in the cities.

Why must we not get a good hold on this major link of reforming the tax system? To elucidate this question, we must begin by speaking about the special characteristics of the reform of the economic system in the cities. The situation in the cities is different from that in the rural areas. In the rural areas the most important element in the economy is the system of collective ownership of property, so that the most important aspect of reform in the countryside is to solve problems of relationships within the collectively owned enterprises. As for relationships between the state and the collectively owned enterprises, in principle these are comparatively clear-cut and for that reason also comparatively easy to solve. The economy of the cities is based mainly on the system of public ownership, and economic reform in the cities must solve the problems of the various kinds of relations within a publicly owned economy, including the relationship between the central authorities and the localities, that between the state and enterprises, internal relationships within enterprises, etc. These condition and influence each other. Obviously we cannot, in an isolated way, deal only with relationships of a certain kind; in dealing with these matters there is really also a question of relative importance and precedence. But how to sort out and solve the matter of precedence among these problems is a relatively complex matter. On the basis of the position and effect of enterprises in the national economy, it seems that first one must solve the relationship between the state and state-run enterprises and then, in a way consistent with that solution, solve the enterprises' internal relationships and the relationship between the central authorities and the localities. Experience demonstrates that solving the relationship between enterprises and the state is a prerequisite for solving enterprises' internal relationships. If this prior problem is not dealt with properly, then the enterprises not only will lack the great motive force necessary to reform management and administration and make technological improvements but will also seek every means possible to shift the burden onto the state or the consumer. And all this is not good for the healthy development of the reform.

In the course of reforming the economic system of the cities, we should, in a planned and orderly way, gradually implement for state-run enterprises independent business accounting and a system of accepting responsibility for their own profits and losses. Over the past few years reform in the cities has been begun by increasing the enterprises' autonomy, and the facts show that this way of doing things is correct. Following this initial enlargement of autonomy, many methods have been envisioned to solve further the relationship between the state and the enterprises and so promote the work of reform. Some localities and departments for a time have used various kinds of economic responsibility systems (mainly management contract responsibility systems) as

the principal link for the continuation of the reform in the cities. In this way, though there have been some accomplishments, nevertheless a great many problems have existed, and timely results have not been achieved. Of the existing problems, one is that the question of the proportion between the base profit and the surplus has not been solved, so that the state and the enterprises, as before, have to waste a lot of energy haggling over base figures and computing proportions. A second is that in calculating the base figures and proportions the state always computes less than the enterprises, guaranteeing the vested interest which the enterprise originally had during the time they were eating out of the big pot under backward conditions of management and administration. In addition, under the present circumstances it is difficult to fix the enterprises' responsibilities rights and profits completely properly, so that a comparatively large number of enterprises pass on the burden to the state and the consumer. A third is that due to the fact that there is a lack of clearly defined and reasonable standards for contracts, the phenomenon of the unreasonable inequality of advantage and disadvantage among enterprises is not only hard to eliminate but will even be more serious. A fourth is that some localities adopt the method of area and department contracts, and this results in a situation in which the interference of high-echelon administrative organs with the enterprises is not reduced, enterprises' initiative to improve management and administration is not strengthened, but rather administrative interference with the enterprises is increased and the enterprises' initiative is weakened. For this reason, although we still must sum up the experience of industrial and commercial enterprises with management contract responsibility systems, and although those having the proper conditions to do well with them can continue to have them in effect, nevertheless, under the present conditions, in general it will not be a good idea to continue to use these management contract responsibility systems as a major link of reform in the cities.

An important cause of the above problems is the fact that at present the prices of products are not reasonable. In comparison with their value, some products have a high price and yield a high profit, and it is easy for enterprises to make a profit from them, while other products have a low price and yeild a small profit and enterprises have difficulty making a profit from them or even lose capital. This is the objective cause of the inequality of advantage and disadvantage among enterprises, making it difficult for enterprises to engage in competition under fundamentally similar conditions and at the same time making it difficult for the state to make use of profits or some other standard to carry out correct assessments of enterprises or control them effectively. If we do not eradicate this cause, it will be difficult to establish a normal and reasonable relationship between the state and enterprises as well as between enterprises; relying at present upon the above-mentioned management contract responsibility systems cannot solve this problem.

A comparatively ideal and at the same time direct method for solving the problem of the unreasonableness of prices is price adjustment. Over the past few years we have already carried out an adjustment of the prices of some key agricultural products, and hereafter we must also, in an orderly way, carry out a rationalization of other prices. However, since the question of prices is comparatively complex, and the areas impinged upon by price adjustment

are so many and, especially, its influence on the lives of the broad masses is comparatively great, added to which are the limitations of objective conditions, at present a comprehensive adjustment of prices would not be possible. Yet another method is to make further use of the economic lever or revenues. For example, we can first set up among the various industries a product tax having different tax rates; products having a high price and yielding a high profit could be taxed at a somewhat higher rate, while low-priced products yielding a low profit would be taxed at a lower rate in order to eliminate or lessen the contradiction among the industries of the great disparity in rates of profit caused by the differing prices of products. Also, within industries, disparities in income among enterprises caused by differences in the resources available to them can be adjusted through a tax on resources; enterprise disparities in income caused by differences in the facilities available to them can be adjusted through a tax on fixed property, and one can also, through other kinds of taxes, adjust enterprise disparities in income brought about by other objective causes. After all these adjustment taxes are levied, a unified income tax can finally be levied on all together, and the profit remaining will revert to the enterprises. In this way, through perfecting the relationship between taxes and profits, it will be possible to eliminate or lessen the phenomenon of the inequality in advantage and disadvantage with respect to the enterprises' income brought on by the unreasonableness of prices, enabling each and every enterprise to compete under more or less the same objective conditions. In other words, in the launching of socialist competition there will be a common starting line, and comparative fairness and reasonableness will be accomplished.

In the course of reforming the tax system, in addition to setting up beneficial kinds of taxes, we must also plan to have good tax rates. The rates for the various kinds of adjustment taxes must, ideally, be able to eliminate discrepancies in income among enterprises caused by objective differences in prices, available resources, facilities and positions and to revert this differential portion of income back to the state. The tax rate should be based on the average rate of profit of enterprises with medium-sized or larger management and administration, and in stipulating the tax rates, since we want to consider the state's need to amass funds, we must also consider allowing enterprises generally to obtain the amount of profit that they need to have. After the taxes are paid, well-managed enterprises will have a high profit, and less well-managed enterprises will receive less profit or even incur a loss. Regarding some backward enterprises, we can stipulate that the time limit be remitted; as for enterprises that are too backward, we cannot look after those but can only allow them to be eliminated and shut down.

Compared with price reform, the methods for the above-mentioned reform of the tax system are easy to implement, and the conditions for putting them into effect are already in existence. In implementing a reform of the relationship between taxes and profits, in addition to being able to eliminate the inequality in advantage and disadvantage with regard to enterprise income caused by the unreasonableness of prices, we will also be able to achieve the following goals: First, the relationship between the state and the enterprises will be regularized by the state's revenue laws, and since it will then be possible to avoid the present contradiction of arguing over base profit figures

and haggling over surplus proportions, it will also be possible to reduce unnecessary interference with the enterprises by the state and realize the demand for a reasonable division of labor between the government and the enterprises. Second, the enterprises' great discrepancies in income brought about by differences in objective conditions can be eliminated or reduced and hence competition can be carried out under identical conditions, thus overcoming the unreasonable inequality with regard to advantage and disadvantage. Third, after the enterprises pay their taxes in accordance with the stipulations, and their profits are allotted by themselves, this can serve to bring about a closer relationship between the income of enterprises as well as that of their staff and workers and their management situation, thus promoting the enterprises to make a strong effort to improve management, to institute technological reform and to improve their economic effectiveness. Advanced enterprises earning high profits will have the possibility of developing and expanding all the faster, and this will be good for overcoming the frequent past phenomenon of supply not equaling demand. In short, through a further improvement of the tax/profit relationship, it will be possible to enable enterprises to realize independent business accounting further and responsibility for their own profits and losses. And since in determining the tax rates the state's need to accumulate funds is considered and, at the same time, the kinds of taxes and the tax rates are stipulated by the state's laws, revenues are comparatively stable and reliable, so that the reform of the tax system is also good for guaranteeing the state's financial revenues and good for the state's pooling of the necessary financial and material resources.

Reforming the tax system is also good for solving the income and allotment relationship between central enterprises and local ones. That is, it will change the present subordinate circumstance of enterprises, since all enterprises, whether central or local, will pay taxes alike to the state revenue organs. At the same time, between central enterprises and local ones, according to the categories of taxes, there should be an accurate differentiation of the range of revenues; some categories of tax revenues would completely go back to the central authorities, other categories of tax revenues would completely go back to the localities and some categories of tax revenues would be shared by both. By implementing this method, it is not only possible to rationally handle the relationship between the revenues of the central authorities and the localities but also possible to enable the enterprises to break away from both central and local authorities, overcome the present malpractice of dividing up regions and departments and cut down on such irrational practices as repetitive construction and using the backward to press on the advanced.

Based on the above reasons, at present we must make the reform of the tax system a major link in the reform in the cities and use it to realize the requirement of pooling financial and material resources and persevering in the reform of the economic system at the same time. In June of this year the implementation of the system of substituting taxes for a proportion of profits delivered to the state was begun throughout the country, and this is an important step in the process of reforming the tax system. But we must be aware of the fact that the present substitution of taxes for profits delivered

to the state is still only a temporary, excessive method and that in merely taking a portion of the profits to be turned over to the state and diverting them into the channel of revenues and adopting the form or revenues, still, after the taxes are paid, for the profit remaining, various methods have to be adopted to implement their allotment. The questions of kinds of taxes and tax rates still must be further studied and solved. For this reason, it is necessary to get a good hold on the work of perfecting the tax system. That is, we must, not only in form but in substance, change the system of turning over a portion of profits to the state and enable the enterprises, after paying their taxes in accordance with the law, to have their profits revert to themselves and be responsible for their own profits and losses and at the same time guarantee that the state is able to pool the funds it needs. Of course, the further reform of the tax/profit relationship cannot be carried out in isolation but must be done in coordination with a whole series of other reform measures that need to be implemented and for which, moreover, the proper conditions exist. In particular, the reform of the tax system cannot wholly have the effect of bringing about a price reform. Although reforming the tax system will be good for a later reform of prices, nevertheless it cannot, after all, replace price reform. Only by combining the various reform measures into the proper set with major and minor elements, and bringing them together into a concerted effort, can we really do a good job of dealing properly with the relationship between pooling financial and material resources and continuing the reform of the economic system. How to accomplish this point is the exceedingly important problem faced now by economic research.

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CSO: 4006/451

GUANGDONG HOLDS CONFERENCE ON ENTERPRISE REORGANIZATION

Guangzhou NANFANG RIBAO in Chinese 24 May 84 p 1

[Article by reporter Huang Xiangguang [7806 4382 0342]: "Conscientiously Do a Good Job in the Reorganization of Enterprises, Place Emphasis on Profit Delivery"]

[Text] Last night, the Provincial People's Government held a telephone conference with all localities to set up systems of responsibility for eliminating losses and increasing profits, to attend to the reorganization of enterprises carefully, to tap the enterprises' potential and to handle the work of tax payment and profit delivery carefully.

Industrial production was good in the province during the first 4 months of this year. The gross industrial output value in the province amounted to 10,696 million yuan, an 8.85 percent increase over the same period last year, of which the gross industrial output value of state-run enterprises included in the provincial budget amounted to 5,119 million yuan, an 8.11 percent increase over the same period last year. The profits realized amounted to 438 million yuan, a 22.55 percent increase over the same period last year. The total amount of profits delivered and income tax and sales tax paid was 847 million yuan, a 5.05 percent increase over the same period last year. Apart from all these increases, the number of enterprises running at a loss and the amount of losses were lower than those of the same period last year. According to the grand total the number of enterprises running at a loss was reduced by 297, a 26.6 percent reduction below the same period last year. The amount of losses was reduced by 42.74 million yuan, a 43.54 percent reduction below the same period last year. However, development of the work of eliminating losses and increasing profits was very uneven. This was particularly true of the 47 key profit-making enterprises whose gross industrial output value and profits realized were less than those of the same period last year. The grand total from January to April showed that the state-run industrial enterprises included in the provincial budget already lost 55.83 million yuan, far in excess of the loss-control quota assigned to the province by the State Council. In the telephone conference, therefore, the provincial government raised the following demands on all prefectures, municipalities, departments and bureaus:

1. A "military pledge" should be signed and a system of responsibility strictly enforced at every level for the fulfillment of quotas for turning losses into profits. Anyone failing to complete the task of turning losses into profits will be held personally responsible and may even be punished. The large enterprises running at a loss must make every effort to reduce losses or to turn losses into profits. Those enterprises that incur prolonged losses, produce unwanted goods and are unfit for retooling or transformation will definitely be closed down.
2. All prefectures, municipalities, departments and bureaus should conduct a checkup on the delivery of profits. Those whose deliveries are in arrears must promptly pay the full amount. Those who have used the profits for other purposes must immediately make up their payments to the state out of their own funds. Any enterprise whose retained profits exceed what is allowed according to the stipulated proportion must return the excessive portion to the state. If the proportion to be retained is too large, some readjustment will be necessary.
3. The reorganization of enterprises and the tapping of their potential must be carefully attended to. All enterprises in the province must basically complete the reorganization of their leading bodies before the end of the second quarter, and by the year's end, 70 percent of the enterprises should be able to pass the acceptance check on the results of their reorganization.
4. The work of increasing production and practicing economy should be carefully attended to, and technical research, the tackling of difficult technical problems and technical renovation should be carried out with a view to saving energy, increasing the production of easily marketable goods, improving quality and producing new varieties.
5. All units should regard the study and implementation of the State Council's "Regulations Concerning the Control of Production Costs Among State-run Enterprises" as an important aspect of enterprise reorganization.

The telephone conference last night was presided over by Vice Governor Kuang Ji [0562 0679].

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FINANCE AND BANKING

AUDITING TASKS FOR 1984 SET IN YUNNAN PROVINCE

Kunming YUNNAN RIBAO in Chinese 2 May 84 p 2

[Article: "Provincial Auditing Work Conference Proposes Tasks for This Year, Actively Launches Audit Supervision To Increase Economic Effectiveness"]

[Text] The Provincial Auditing Work Conference, which was held from 9 to 18 April, decided that this year's auditing tasks would be as follows: Use of the whole party as a driving force in an effort to complete the organization and building of auditing institutions at all levels and actively to launch audit supervision in order to increase economic effectiveness, stimulate the financial and economic situation and make a contribution to a fundamental change for the better of party style and the social atmosphere.

The conference hoped that all levels of government would strengthen the leadership of auditing work and diligently perform the following task: Actively launch the development of auditing supervision. Auditing organizations must independently exercise auditing supervision authority with the goal of improving economic effectiveness, choose key points on all fronts, concentrate forces, link top and bottom, individually audit a group of projects and strive to achieve remarkable successes so as to expand their influence and lay a fine foundation for the creation of a new situation in auditing work. Financial, tax and banking sectors should actively take the initiative for the mutual coordination of auditing organizations, the better to complete the auditing supervision tasks. Problems that audits bring to light are to be handled strictly in accordance with the laws and regulations and without leniency or indulgence. In addition, a firm grip is to be taken on completing the organization and building of auditing institutions at all levels. A firm grip is also to be taken on the training of auditing cadres, with attention directed to the training of personnel and the application of scientific research. Auditing organizations should be set up as quickly as possible in departments and units, and all levels of government should create the necessary work conditions for audit organizations.

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## FINANCE AND BANKING

### PROBLEMS WITH TAX PAYMENTS, PROFIT DELIVERY EXAMINED

Kunming YUNNAN JINGJI BAO in Chinese 7 May 84 p 3

[Article by Zhou Junshan [0719 0971 0810] and He Qichang [0149 0366 2490]: "Problems in the First Step of Substituting Tax Payments for Profit Delivery"]

[Text] Practice has shown that since the province's institution this year of the first step of a plan for substituting tax payments for profit delivery, truly greater advantages have followed from state use of fixed tax levies to apportion profits that enterprises have realized. Payment of income taxes at a unified tax rate in accordance with state regulations has become a bounden duty for enterprises that get around enterprises' efforts to use various pretexts to talk terms, argue about base figures, quarrel about proportions and haggle back and forth. It also avoids unnecessary governmental interference such as the departments concerned arbitrarily changing the way in which profits are to be divided, it guarantees steady growth in state financial revenues and it helps the handling of apportionment relationships among the state, the enterprises and individuals, genuinely insuring the distribution principle whereby the state gets the largest share. With the implementation of the substitution of tax payments for profit delivery, all enterprises will have to fulfill their obligations to pay taxes to the state treasury no matter how effective their production operations have been. This stabilizes and strengthens the enterprises' economic responsibility, thereby increasing outside economic pressures on the enterprises.

The first step in reform is a transitional one, however. It is not thorough-going, and it does not solve in a fundamental way the apportionment relationships between the state and the enterprises, nor does it completely solve the problems of eating out of a large common pot or the unequal sharing of the joys and hardships among the enterprises. Consequently, further reforms of the tax system are to be carried out. Limitations of the first step of substituting tax payments for profit delivery are as follows:

1. The method of levying taxes is based on no change in the former industrial and commercial taxes. It employs the levying of an income tax on profits after the payment of industrial and commercial taxes. It does not entirely change the payment of profits to tax levies, and how after-tax profits are

to be divided up remains a problem. It is still a method in which the payment of taxes and profits coexist. The income tax is a form of taxation that is levied on income. No income, no tax payment; much income, a large tax payment; little income, a small tax payment. When enterprises incur losses as a result of inept administration and management, they pay no taxes. This method is not essentially different from the method of various kinds of withholdings from profits. If an enterprise increases costs that reduce profits, it can cut income tax payments to the state, and how after-tax profits are to be divided up occasions all sorts of arguing back and forth.

2. For historical reasons, China has had an inequitable price system for the past several decades, with the price of some products being far greater than their value, and the price of other products being far less than their value. The first step in substituting tax payments for profit delivery has not addressed this problem, and it actually rests on a basis of inequality, acknowledging and looking after enterprises' vested interests. The second step in substituting tax payments for profit delivery will have to set individual unified tax rates for different trades and industries and different products. Tax collection will be used to readjust price differences among enterprises resulting from prices being at variance with value, price differences resulting from a differing availability of resources and from differences in transportation or geographic conditions and price differences resulting from the amount of state investment in enterprises or technical equipment that the enterprises use. This is the only way in which to overcome the situation of eating out of a large common pot and the unequal sharing of joys and hardships among enterprises.

3. The prevailing method whereby the income tax is the principal form of tax levy makes for very great difficulties in making full use of tax levies as a lever for the regulation of economic activity. Other forms of taxation are too few. The income tax can directly regulate an enterprise's level of earnings, but it cannot regulate the production and consumption of any given product. Were a tax on products to be instituted, it would be possible to regulate differences in income derived from different products and resulting from inequitable pricing. Were a tax on resources instituted, the protection of national resources could be regulated through taxation and the rational use of resources promoted. Regulation using different forms of taxation could eliminate the various favorable and unfavorable effects on enterprises brought about by external factors, and then enterprises would be able to compete under equal conditions.

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## FINANCE AND BANKING

### AGRICULTURAL BANK SUPPORTS COMMODITY PRODUCTION

Harbin HEILONGJIANG RIBAO in Chinese 29 Apr 84 p 1

[Article by reporter Hua Dazhen [5478 1129 4176]: "Provincial Agricultural Bank Relaxes Policy, Supports Production of Commercial Commodities"]

[Text] "In the future, farmers who need loans to purchase automobiles and large and medium-sized farm machinery can be given loans if they qualify and if they can provide one-half of the capital needed by themselves." This was announced at today's meeting of branch managers of the provincial agricultural banks by the deputy manager of the Heilongjiang branch of the Agricultural Bank, Wang Junren [3769 0689 0088].

He also announced the relaxation of other policies:

Workers of state-run agricultural enterprises who are operating family farms, family forest farms, family stock-raising farms can receive loans if they qualify. Farmers engaged in production spanning communes, counties and prefectures, and in reclamation-type production of unclaimed mountains and wastelands and who have permits to engage in such business can receive loans. When the banks and credit cooperatives have surplus capital and when the lending institutions have sources of repayment, activities of popularizing science and technology in rural areas and developing culture and education can also receive loans.

Individuals who hold legal documents to operate shops, engage in transportation and marketing, storage and long-distance transport of products for selling can also receive loans from the agricultural banks.

Families engaged in rural production can open individual accounts at the banks or credit cooperatives and enjoy accounting services.

When the farmers submit agricultural sideline products for sale, they must be given cash if they want cash, and if they want to transfer funds, the banks must honor their requests. When farmers and collective units go to places where transportation is inconvenient or where there is no fixed location for procuring materials, they can carry cash.

Banks and credit cooperatives at each locality must all give floating interest rates according to related regulations on a trial basis.

The provincial agricultural bank has also delegated authority to local and municipal agricultural banks in the management of labor wages, in the supervision of cadres, in business management, in credit and loan plan management and in the management of credit cooperatives.

9296

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FINANCE AND BANKING

SHIFT FROM PROFIT DELIVERY TO TAXATION DISCUSSED

Chengdu SICHUAN RIBAO in Chinese 26 Apr 84 p 1

[Article by staff commentator: "Insist on the Correct Direction of Changing Profits to Taxes"]

[Text] Premier Zhao Ziyang clearly pointed out in the "Report on the Sixth 5-Year Plan": "The direction of changing submitted profits into submitted taxes should be firmly established, and the progress toward using taxes as a substitute for profits should be hastened." Since the Third Plenum of the 11th CPC Central Committee, the experience of using taxes as a substitute for profits in the reform of the economic system of our province and the practice of the overall implementation of changing profits into taxes in 1983 all show that the direction of changing profits into taxes is correct and the results are visible. We should firmly and actively implement the second step of reform in changing profits to taxes by following the direction of the reform and on the basis of summarizing and perfecting the first step in changing profits to taxes.

Some comrades said changing profits to taxes has allowed enterprises to keep less profits and this has affected the development of the enthusiasm of the enterprises. They advocate using the method of submitting a fixed portion of profits. Is this opinion correct? The answer is negative. In 1983, our province's local state-run industrial enterprises implemented changing profits to taxes, and as a result, the state received 12.3 percent more than the previous year, and the enterprises and the workers received 22.3 percent more, surpassing the percentage increase realized by the state. A few enterprises in individual localities retained less profits. There were many reasons which must be concretely analyzed. Some lagged behind in production, and the income of the state and the enterprises all dropped. Some retained the same amount of profits but because of implementing the measures to centralize capital for the state, the amount of money and the enterprises could actually control lessened. In some other cases, there were problems in the base figures for calculations and in the range of distribution. We cannot blame the changing of profits to taxes for all shortcomings. The greatest advantage of changing profits to taxes is to use legal formality to establish the duties and economic responsibilities of state-run enterprises to the state. It first guarantees a steady increase in state revenue and at the same time it guarantees a reasonable income for the enterprises and the workers, thus truly manifesting the principle of "taking care of all three sides." It coincides with the direction and the demands of reforming the economic system.

The first step in changing profits to taxes cannot make overall adjustments and reforms because such factors as price are irrational. The differences between profits of enterprises are very great, and the imbalance between satisfaction and dissatisfaction is more serious. Therefore, the method itself still retains some shortcomings of the method of retaining a percentage of profits, and it cannot fully develop the function of taxation as an economic lever. At the same time, because the first step in changing profits to taxes did not solve the problem of allowing open competition among enterprises on the same starting line, it cannot develop the function of rewarding the conscientious and penalizing the lazy, encouraging the advanced and pushing the backward ahead in a better way. These have all affected the improvement of economic benefits to a certain degree. The second step in changing profits to taxes is to start by reforming the current taxation system on an overall basis, to make necessary adjustments of the differences in profits formed by different conditions of price, resources and production of enterprises by designing appropriate types of taxes, tax categories and reasonable tax rates so that the enterprises can retain for their own use all profits remaining after paying the various kinds of taxes to the state according to regulation and bear their own profit and loss. In this way, we can further solve the distributive relationship between the state and the enterprises well so that they can become relatively independent productive enterprises bearing their own profit and loss we can unify responsibility, rights and profits and solve problems so that the enterprises will not "eat from the big pot" of the state, and we can solve the problems further so that workers will not "eat from the big pot" of the enterprises, and we can solve the problem of egalitarianism. Thus there is external pressure on the enterprises, and a dynamic force within the enterprises to better stimulate them to increase their vitality, push technological progress forward, improve their caliber and increase their economic benefits.

The starting point and the goal of the reforms of the economic system are to vitalize the entire national economy. Premier Zhao Ziyang pointed out, changing profits to taxes "may possibly become a key to the reform of the urban economic system." We must realize a breakthrough in this aspect and promote other reforms such as reforming the planning system and the price system. Some comrades advocate the payment of fixed incremental profits. They believe this can tie down one end and open up other sides and vitalize the enterprises. Of course, implementing the payment of fixed incremental profits will serve an active function in increasing economic benefits. Some test point enterprises have also realized visible results. But, this method can only be carried out on a trial basis by some enterprises with special needs. This is because: first, when that portion to be submitted to the state is fixed, the incremental portions cannot guarantee that the state will receive the bulk; second, the practice of paying a fixed portion of profits within a province cannot be done under a uniform method, there will be many disputes, it will be time consuming and there will be many mistakes because the base number for the payment of a fixed portion of profits must be the same for all enterprises throughout the province, and the same number of incremental ratios; third, we are implementing the planned economy as the key principle, we need the guidance and control of macroeconomics, and we must develop the national economy according to plan and proportionally. If we only vitalize the enterprises and fix the portion of profits for the state, this would not

benefit vitalizing the entire economy. Also, the implementation of payment of fixed incremental profits by the enterprises is conditioned on the willingness of the enterprises that make more profit and the unwillingness of enterprises that make less profits and that have greater difficulties. Also, after implementing the payment of fixed incremental profits on an overall basis, it is easy to scatter funds for technical reforms, and this is unfavorable to the state's key construction projects and rationally managing economic relationships. After changing profits to taxes, various forms of business contract and responsibility systems can be implemented according to the situation at each factory and between the enterprises and their workers, the principle of distribution according to work can be truly implemented and realized, and the enthusiasm of the broad numbers of workers can be better mobilized.

The major task and goal of changing profits to taxes can be realized satisfactorily only after implementing the second step of reforms. At present, the progress of the first step of reform in changing profits to taxes in our province is very imbalanced. Some enterprises that should have implemented changing profits to taxes according to regulation have not done so, some enterprises change only the visible portion and do not change the hidden portion, and some still have various doubts. We need to clarify understanding further, abide by the uniform steps of the state's efforts to change profits to taxes, conscientiously prepare for the second step in changing profits to taxes well while we continue to perfect the first step in changing profits to taxes.

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FINANCE AND BANKING

CONFERENCE ON AUDITING WORK HELD

Yinchuan NINGXIA RIBAO in Chinese 20 May 84 p 1

[Article: "Li Yunhe [2621 1926 0735] Points out at the Autonomous Region Conference on Auditing Work That Strengthening Auditing Work Serves To Increase Economic Results"]

[Text] The vice chairman of our autonomous region Li Yunhe pointed out at the recently convened autonomous region conference on auditing work that we should increase understanding, strengthen leadership and vigorously develop auditing work, fully bringing its role into play in raising economic results.

This conference is the first work conference of the entire region since the formation of auditing organizations at all levels in our region. The conference has passed on the spirit of the national auditing work conference, has examined and summarized the circumstances of formation and early stages of work experience of all levels of auditing organizations throughout the region and has arranged a plan for future work.

Li Yunhe has stated that auditing work is a new type of work and everything must start at the beginning, according to the real conditions in our region. Currently, we need to get a tight handle on organizational formation and the equipping of cadres, striving for completion of this work in the first half of this year. Based on the actual conditions of autonomous region auditing organizations having just been established and lacking personnel and experience, we can unify organization, collectivize strength, focus on raising economic results as the center and in a planned and prioritized way audit the profits and losses of enterprises of large households, priority projects and priority businesses and concentrate on auditing big and important cases violating financial and economic discipline. Through audit control, discover the problems, expose the contradictions and seriously deal with them and promote the development of production construction and the increase of economic results. We must have special organizations and personnel concentrate on training audit specialists. All governmental levels must consciously strengthen the coordination of operations among the leaders of auditing work, finance, tax, banking and other related departments and auditing bodies in order to fulfill better the task of audit control.

## INDUSTRY

### CAUSES OF DECLINE IN SHAANXI TEXTILE INDUSTRY DISCUSSED

Xian SHAANXI RIBAO in Chinese 6 May 84 p 2

[Article by Wang Jian [3076 1017]: "What Are the Causes for the Decline in the Textile Industry in our Province?"]

[Text] What are the causes for the decline in the textile industry in our province?

The causes are many and complex, but the basic one is "premature birth."

In the past, the textile industry, with more than 1.6 million workers, nearly 1 million spindles and more than 25,000 looms was a "money-producing tree" with a strong influence on the province. In the 5 years before 1983, the taxes paid and the profits delivered to the state by this industry were equivalent to more than 46 percent of the sum total of taxes and profits in the previous 29 years. This year, the situation has changed a great deal, and this industry may not even be up to last year's level.

One of the main reasons is the shortage of cotton and chemical fibers. Because of the restricted production of pure cotton fabrics this year, 22,000 tons of polyester fiber were needed. However, the supply was 7,000 tons short. The shortage was even greater, if we calculate according to the productive capacity. For more than 20 years, the supply of raw cotton from agriculture has always been insufficient. In 1978-1982, the cotton supply was only slightly more than half self-sufficient. Last year, because of the disasters from rain and the consequent poor harvest, 80 percent of the raw cotton was brought in from the fraternal provinces, and most of this cotton was of the first and second grade quality and too good for our production technology. Thus the enterprises were forced to "use fine-quality cotton in cheap products" and to raise the production costs. They really had a tough time during those days of "cooking without rice."

At present, polyester-cotton fabrics are in demand. This is in keeping with the trend of developments on the international market. However, polyester materials are scarce in our province. For many years, our province has hesitated in developing the chemical fiber industry and lost many good opportunities. As a result, we were very slow in starting even the projects

approved by the state. A project for the production of 7,500 tons of short polyester fibers (equivalent to the yield of 150,000 mu of cotton fields with a per-mu output of 100 jin) was approved by the state back in July 1980, but even now, it is still in no condition for trial operation, while a factory of the same scope in another province, started only 9 months earlier than ours, has already been in operation for 2 and 1/2 years. This hesitant attitude has brought hardship to our textile industry. The manager of the provincial textile company also admitted: "Our lack of attention to chemical fibers has been a major blunder. Last year, the output of chemical fibers from the small plants in our province was only some 1,500 tons, only 0.28 percent of the national output. That is why we are so short of raw materials for production."

Now, the serious situation of our textile industry has opened the people's eyes. They now really feel the need to develop the chemical fiber industry for raw materials. In the middle of June, they invited a team of experts, led by the manager of the Jinshan General Chemical Industry Plant, to discuss the means to develop our chemical fiber industry for raw materials. The manager talked about Shanghai's experiences and said: "If the projects in Shaanxi are ready, we will undertake to supply a complete set of technical equipment for producing 15,000 tons of raw silk each year."

This problem is now the subject of study by the investigation and study group for developing Shaanxi's textile industry under the provincial economic commission. Dang Zhongxian [8093 0112 6343], vice chairman of the provincial economic commission and head of the group, has organized people from the industrial, commercial and foreign trade circles to participate in the study. The program of reform in this work should fit in with the plans of the provincial planning commission and the provincial textile company in the Seventh 5-year plan.

9411  
CSO: 4006/582

INDUSTRY

BRIEFS

INDUSTRIAL ENTERPRISES TAXES -- According to the data of the final accounts of state-run industrial enterprises as collected by the Ministry of Finance for 1983, the initial reform in substituting tax payments for profit delivery has shown good results. A total of 28,100 state-run industrial enterprises underwent the initial reform in substituting tax payments for profit delivery last year and realized profits totaling 47.33 billion yuan, an increase of 4.22 billion yuan over 1982. Of the increased portion, the state obtained 61.8 percent from income tax payments and the delivery of after-tax profits, while the enterprises obtained 24.9 percent, leaving the remaining 13.3 percent for the individual workers. Thus the state obtained the largest part, the enterprises obtained the second largest and the individual obtained the rest. On the premise that the state obtains the largest part, the retained profits of those enterprises that had substituted tax payment for profit delivery were also markedly increased last year. Their retained profits amounted to 7.873 billion, an increase of 1,615 million yuan or 25.8 percent over 1982. [Text] [Beijing RENMIN RIBAO in Chinese 10 Jun 84 p 1] 9411

CSO: 4006/582

## CONSTRUCTION

### REFORM IN MANAGEMENT OF BUILDING INDUSTRY URGED

Beijing JIANZHU JINGJI YANJIU [THE STUDY OF BUILDING ECONOMICS] in Chinese  
No 3, 15 Jun 84 pp 2-5

[Article by Ministry of Urban and Rural Construction and Environmental Protection: "Reform the Management System of the Building Industry; Strive To Improve Economic Results"]

[Text] In 1983, the situation of the building industry was fairly good, the pace of systematic reform accelerated and economic results clearly improved. The main economic and technical targets of the entire industry created a new level in history and the rate of increase of profits exceeded the rate of increase of output. The state-run construction enterprises of the Ministry of Urban and Rural Construction and Environmental Protection and its affiliated organizations completed 11.5 billion yuan of construction work, a 12 percent increase compared to 1982. The labor productivity of all personnel amounted to 6,066 yuan, a 10.3 percent increase compared to 1983. The total area of residences built amounted to 47,437,000 square meters, an 18.7 percent increase compared with 1982. It is estimated that the total area of residences constructed by collective construction enterprises above the county level exceeded the total of state-run enterprises, and other important economic and technical targets also increased compared to 1982. The aforementioned achievements we realized both through thoroughly implementing the policy of readjustment, restructuring, consolidation and improvement and especially under the impetus of continually advancing reforms.

#### I. Proposals for Reform Plans

Since the Third Plenum of the 11th CPC Central Committee, the building industry, in bringing order out of chaos in their guiding ideology, has begun to carry out reforms in their administrative system and management style, started to overcome problems that existed in their administrative systems such as "all eating from a common pot" and egalitarianism and has given rise to a new vitality. The building industry ended the situation of long-standing debts and by the end of 1982 had handed over 1 billion yuan in profits to the state (original construction and industrial organizations). Reforms that have already been carried out, however, still belong under the category of small reforms and there have been no great breakthroughs in the situation as a whole. In short, the production and management activity of the building industry is still fairly passive and direct economic results are not

high. After the 12th CPC Congress, in regard to initiating a new situation and on the basis of summarizing past experiences in reform, we also raised a comprehensive reform plan. Its main content follows.

1. We are reforming the style of management and comprehensively promoting the contract system for construction teams. We appropriately plan small accounting units, take the construction unit as a base and contract for the period of construction, quality, consumption and cost. We are overcoming the past corrupt practice of calculations being disjointed and are fulfilling the responsibility for production quotas down to individuals and production teams and groups.
2. We are reforming the method of wage distribution and are changing from determining wages according to each person to determining wages according to output and the content of the task. Internal distribution uses the nation's unified labor quotas as a base; more compensation for more work, less compensation for less work with no upper limits for wages and no guarantee of a basic wage.
3. We are reforming the management system and organizational structure of the building industry and breaking through the boundaries of departments and systems of ownership. We are establishing a management system using state-run enterprises as a leading factor, collective enterprises as a supplement and rural construction teams as a complement.
4. We are reforming the form of investment of rural residences. We are taking the old method of decentralized investment, decentralized tax investment, decentralized materials preparation and decentralized construction and are gradually changing it to bank loans from contract departments and construction departments. We are comprehensively developing and unifying construction and carrying out management that is oriented toward commodities.
5. We are reforming the old method of merely using administrative measures to assign construction tasks. Under the nation's unified planned guidance, we are developing competition with leadership, allowing building units to choose the best construction units and are implementing a system of entering and negotiating bids.
6. We are reforming the method of supervising the quality of projects. We are combining self-supervision by enterprises and social supervision, using social supervision as a base and are implementing a tripartite authentication system. Completed projects that are not examined and qualified by supervisory and inspection bodies will not be utilized.
7. We are reforming the cadre system and are stimulating qualified personnel. Managers of construction enterprises and companies are gradually being elected democratically and are organizing appointments.
8. We are reforming both backward forms of production and methods of management. We are carrying out comprehensive technological transformations using production as a key and are promoting the management of targets. We are combining developments in complete technology with mass innovations and are creating industrywide and integral technological advances.

9. Design research units are changing from the method of management by the institutions to engaging in management that is oriented toward the enterprise based on design for receipts from projects or labor services.

10. We are reforming the management system for scientific research and are enthusiastically developing integrated organizations for design, construction, production and scientific research.

Vice Premier Wan Li on 28 February 1983 made an important comment on this reform plan: "I approve of the reform plan; we should gradually promote it, promptly summarize our experiences and continually perfect it." In March of that year, the Ministry of Urban and Rural Construction and Environmental Protection held the National Construction Work Conference and studied ways to implement Wan Li's comments. At the same time, we discussed and formulated a set of regulations, conditions and methods. Up until the present time, we have already issued nine papers regarding laws and regulations such as: "The Main Points of the Technological Transformations of the Building Industry," "Conditions for Supervising the Quality of Construction Projects," "Experimental Methods for Assuming Responsibility for Cost Per Square Meter of Residential Projects," "Trial Methods of Accepting and Entering Bids for Construction and Installation Projects," "Methods for Jointly Managing State-Run Building Enterprises and Urban and Rural Collective Building Enterprises" and "Methods for Implementing Certain Policies and Temporary Provisions for Collective Building Enterprises in Cities and Towns." These papers have promoted the implementation of the reform plan.

## II. The Preliminary Results of Reform

After the reform plan was handed down, each area's concerned urban and rural construction departments combined the specific circumstances of their respective areas and in a down-to-earth manner carried out and promoted the experiment. Due to the fairly centralized reform goals, the main direction of attack is clear and we have extensively received definite results.

First, the responsibility system of contracting teams for managing contracts has been widely promoted. Liao Ning, Jilin, Heilongjiang, Guizhou, Gansu, Hunan and other provinces are organizing an experiment. Shenyang's construction bureau changed from 83 building brigades in 5 construction companies to 108 contracting brigades and engaged in collective contracts. The brigades are responsible for profits and losses, they distribute according to work and engage in democratic management. The contracting brigade uses the project unit as a target and the budget as a basis according to construction capability and guarantees the work, material and cost, and its one guarantee is final. It signs a business contract with the company for an entire year, losses are not compensated and extra profits accumulated are appropriately drawn from. The contracting brigade in contracting to do a task, arranging production, managing personnel, in internal distribution and in using accumulation, has a certain authority to make policies, has further combined the means of production with workers and has effectively aroused the enthusiasm of workers to be masters of their own destiny. Last year, our major economic and technical targets increased greatly: output increased 14 percent, labor productivity of all personnel rose 20 percent, profits increased 26.6 percent and the amount of profits handed over to the state doubled.

Second, wage responsibility according to output is being carried out experimentally in 20 provinces and cities. Because this type of method determines the total amount of wages according to variable wage coefficients, it encourages enterprises to use people less, increase output and stress results. It both contributes greatly to the state and causes workers' income to increase. Not only has output and wage content decreased greatly compared to last year, not only has the phenomenon of overspending for manual work basically been checked and not only has the phenomenon of determining wages according to the number of people without caring about the quality of the work among enterprises and even among construction brigades been overcome, but the rate of increase of the income of each individual worker has been lower than the rate of increase of labor productivity and profits, and we have ensured a steady improvement in comprehensive economic results and a continual increase in national revenue.

Third, the method of being responsible for the costs of residence projects per square meter is already being carried out on a trial basis in numerous provinces, cities and autonomous regions. Besides such provinces and cities as Liaoning, Jilin and Tianjin which are broadly promoting this, 80 percent of the residences built in Zhengzhou, Luoyang, Kaifeng, Xinxiang, Pingdingshan and Anyang of Henan Province use this form of responsibility for the completion of the task. The Lanzhou region in Gansu Province also comprehensively promoted this. Changsha in Hunan Province for a large amount of its residential projects, no matter who invested or contracted, commonly carried out pricing responsibility for tasks. The use of this method has solved three problems existing in past construction of residences: 1) we have controlled construction pricing and solved the problem of budgets exceeding estimates and of final accounts exceeding budgets; 2) we have eliminated overelaborate budgets and final accounts and have overcome the phenomenon of wrangling between construction units and building units; 3) we have enabled construction units to advantageously cast off their dependent status, improved management and administration and we have taken the road to using economic methods to manage enterprises.

Fourth, social supervision of project quality has already been carried out experimentally in Dalian of Liaoning Province, Xinzhou of Shanxi, Hegang of Heilongjiang, Xinhui of Guandong, Wendeng of Shandong and in Siping of Jilin Province. In carrying out social supervision of project quality, we have changed from the past method of self-evaluation by the construction unit of project quality to a determination of quality by a quality inspection station of a government representative. Any completed project that has not been checked and qualified by a quality inspection station will not be permitted to be used and the Construction Bank will not appropriate construction costs. Adopting this method has controlled for the state the checking and acceptance of project quality and at the same time has caused the checking and accepting of projects between enterprises to be placed on an equal footing. Enterprises with competent management and administration and a high level of quality will benefit; units with chaotic management work, a low technical level and substandard project quality will be penalized. This will cause enterprises to take the pressure of social supervision and change it to a motive force for competently managing social supervision. According

to responses from all areas, after carrying out social supervision, the quality of management work within enterprises was further strengthened and there were marked improvements in project quality.

Fifth, the inviting and entering of bids for construction projects has demonstrated a strong vitality. This work, besides for being promoted in vast areas of Shenzhen and Guangzhou, is also starting to be tested consecutively in Xiamen, Luoyang, Shashi, Shenyang, Siping, Zhongqing and Zigong. Last year, more than 90 percent of construction projects in Shenzhen used the method of inviting and entering bids. The Shenyang Bureau of Construction completed 55,000 meters of projects using the method of inviting and entering bids. In Siping, 21 projects, 30 percent of all projects completed in the entire year, used the method of inviting and entering bids. In May of last year, the town of Gongzhulin in Siping required that a sewage pipe be laid by the end of November. Eleven units participated in the competitive bidding, and an installation company from Changchun broke with tradition, reformed the technology and the prices it bid were 50 percent lower than those of the other companies. Construction of this project has been completed on time and the quality conforms to standard regulations. Seven construction companies entered bids for the 3,100 square meter school building for the Siping Cadre School of Finance, and a rural construction brigade from Anyang won the bid. It started construction on 5 April and completed construction by the end of September. The period of construction was short, the quality was good and the construction unit was satisfied. From the view of each area's experiment, projects implemented through inviting and entering bids usually are completed on time or ahead of time according to contract stipulations, the quality of construction is ensured and construction funds are saved.

Sixth, we have continually expanded the comprehensive development of urban residences and experiments in management oriented toward commodities. Currently, more than 10 cities, such as Changzhou, Zhengzhou and Shashi, have carried out the comprehensive development of residences and management oriented toward commodities. Last year we comprehensively developed 20,000 commodities and residences totaling 1.21 million square meters, and basically construction was started, completed and the project was ready to use all in the same year. A few cities have adopted the method of comprehensive development and in every way have transformed their old cities. They have both conserved the land used and have improved the appearance of the city. Carrying out the comprehensive development of residential construction accumulates funds in many respects, has reduced the state's investment in residences and has created conditions for gradually changing the situation of the distribution of free housing.

### III. A Few Things We Must Understand

Comrade Deng Xiaoping continually stresses that reform must run through the entire process of the four modernizations. If we do not carry out a series of reforms we will not be victorious in modern construction. Based on more than 3 years of experience, we deeply believe in the importance of Deng Xiaoping's goal. Reform, however, is not an easy matter, and in the process of advancing, it often meets with many arduous problems. Concerning our own work, the substance of reform and reform policies are also not perfect, and

we must continually advance in trying to find a solution. In order to truly transform the building industry into a materials production department that possesses Chinese characteristics and that is full of vitality and in order to give play to the deserved effect of the four modernizations, we feel that we must do the following:

1. We must strengthen our confidence in reform. The reform of our economic system is an extremely arduous and complex task. The difficulty of reform is even greater as it concerns the construction industry. For a long time, numerous comrades have confused the building industry with materials production departments. They do not recognize the building industry as materials production departments and do not recognize that the product of construction is commodities. Building materials follow the road of investment; building units do not take the initiative in production and they lack vitality. If there is no change in the situation, we cannot reduce the period of construction, raise the quality of construction and establish a strict responsibility system, and this is disadvantageous for accelerating the four modernizations. In the past few years, in accord with the spirit of the directives of the leading comrades of the Central Committee and State Council concerning developing and stimulating the building industry, from complete and superb construction to expanding the autonomy of enterprises and reforming the form of management, in practice we have sought the correct path for reform. Under the impetus of the trends of these types of reforms, a group of advanced enterprises has emerged using Hebei's No 2 Construction Co in Handan and Henan's Dongfeng Construction Co in Luhe as representatives. One of these two models is state-run and the other is collective, and their special characteristic is that they have taken a new road through reform. Labor productivity of the Handan No 2 Construction Co reached 12,000 yuan, an area of 70 square meters was completed per person and for 5 years continuously the level was twice as high as the national level. The Dongfeng Construction Co supports the policy of "workers can be hired and fired, wages can increase and decrease and cadres can go up and down the ladder" and the enterprise has experienced new improvements in quality. We have taken their experiences and spread them throughout the industry and to a great extent have promoted the steady development of work in reform.

2. Reforms must be carried step by step and with leadership. Currently, the reform of the building industry is being carried out under the circumstances of the state's economic system not yet having carried out a comprehensive reform. Thus, we support the drawing up of a reform plan setting out from reality and permitting gaps in reform. In light of the spirit of it being easy in the beginning and difficult later on, we will first solve those problems that are urgent and easy to solve. For example, we are promoting a contract responsibility system for managing contracting brigades, we are reforming the method of supervising project quality and we are carrying out a responsibility system for cost per square meter. Concerning the economic management system, for instance, such problems as a material supply system, brigade management system and prices for construction products, we are organizing experiments with initiative, we are striving to make breakthroughs as quickly as possible and are creating the conditions for further reforms. In 1 year, each area in carrying out experimental comprehensive reforms,

has proceeded from the actual conditions of its respective region and has not engaged in arbitrary uniformity. Through the comprehensive experience from experimentation, they then commonly promoted reform and ensured the smooth advance of reform.

3. Reform must use improved economic results as a key. On the eve of the smashing of the "gang of four", originally more than 50 percent of state-run enterprises operated at a deficit, depended on state subsidies to get along and become the burden of the state. Thus, improving economic results is the starting point for reform and is also a goal that reform must achieve. When formulating a reform plan and examining the results of reform, we must use the ruler of economic results to measure the reform. The building industry has made advances in reform these past few years, one of which is that we have achieved remarkable economic results. Since the Third Plenum of the 11th CPC Central Committee, the situation of the building industry has improved with each passing year, the profits turned over to the state have improved annually and enterprises have retained profits. Not only have we developed production but we have also gradually improved the democratic conditions of workers.

4. Reform must be supported by the relevant departments. The reform of the building industry touches upon many aspects and the situation is fairly complex. This requires the great support and coordination of the relevant departments in order to be competently carried out. When drawing up a reform plan, we must take the initiative to solicit the opinions of the relevant departments, accept differing opinions and seek a solution through consultation. If we do not have the help and support of each department we cannot achieve results in our current reform. The tasks of future reforms of the building industry are extremely arduous. We must further strengthen coordination with relevant departments and receive support in every respect.

Comrade Zhao Ziyang pointed out in August of last year that China's building materials industry and building industry must develop greatly. Currently, based on this goal we are formulating specific measures, further carrying out each reform that has already been initiated continually improving in practice and striving to initiate a new situation in the building industry.

12437  
CSC: 4006/642

## CONSTRUCTION

### REFORM OF BUILDING INDUSTRY DISCUSSED

Beijing CHENGXIANG JIANSHE [URBAN AND RURAL CONSTRUCTION] in Chinese No 6,  
5 Jun 84 p 9

[Article by staff commentator: "Liberate Thinking, Stress Reform"]

[Text] The leading comrades of the central government constantly point out that more than 30 years of practice proves the China's current numerous management methods are backward and must be resolutely reformed. We cannot realize the four modernizations without reform. This must become an extremely important guiding ideology for us.

Reform in the agricultural areas has achieved great success. Why has agriculture taken the lead? The most important reason is that the agricultural system and management and administration carried out a great reform. This greatly inspired people. We believe that we will win a new victory in the reform of each enterprise in urban and rural construction. In the next few years, the building industry must pay attention to eliminating "leftist" influences, be bold in carrying out experimental reform, continually improve in consolidation and give rise to a favorable situation. Based on the great mobility of the building industry and its decentralization and because for the most part it is outdoors, it suits the special conditions for carrying out a contract system of responsibility. Under the circumstances of the state economic system not having been completely reformed, it is extremely likely that the building industry will take the first step.

Comrade Li Ximing [2621 6932 6900] pointed out at the National Conference of the Heads of Construction Bureaus held in the last third of April at Beijing that currently the key to our reform is the building industry. Yet it also involves the urban and rural construction of each enterprise. Each form of contract system of responsibility, a system for distributing bonuses that is not automatic and a labor system combining fixed wages and contract workers--these have been proven by experience in reform to improve economic results, and we must have a free hand in promoting them throughout the industry. He also said that the broad masses of cadres and workers in the industry must further liberate their thinking based on the overall goal of stimulating the building industry. They must promptly summarize their experiences in grass-roots reform, integrate from top to bottom and promote reform.

Carrying out comprehensive development and management related to the development of urban residences is an effective way to solve competently the problem of urban residences. Housing commodities are not limited to residences, they also include the building of comprehensive office buildings, industry buildings and commercial service centers. Each area must enthusiastically experiment with and promote this. The experience of Changzhou, Shashi, Zhengzhou, Siping and other cities in carrying out subsidized sales of residences proves that it is feasible and must be further promoted. The sale of one-third of the residences built in the cities must be subsidized. They will be sold and then distributed, and the persons buying them must return them. The method of reform and distribution of residences rented in the cities and towns must also be gradually reformed.

With the development of the agricultural economy and the commodity economy, the construction of buildings in villages increased greatly and construction in the cities and towns has also advanced. In order to carry out construction in the cities and towns further, state-run construction enterprises can enthusiastically contract for tasks to develop base facilities in villages and can help the village and small towns in planning and construction design and can supply all types of technical services. They can also start rural housing construction materials, complete supply companies, carry out a market adjustment and organize the construction and supply of rural housing construction materials and commodity components. This way, they can suit the need for the construction of housing for peasants and can aid construction in the cities and towns and they can also promote the development of the building industry and rural construction enterprises.

City residences, water supplies and drains, gas, heating, roads and bridges, public communications, environmental sanitation and other institutions are material conditions that ensure that the production and livelihood of the people will not be reduced. For many years they have been considered to be nonproductive construction, the plans have not been lined up, channels for funds and materials have not been open and for a long time welfare projects have been used for free. These burdens have all been borne by the state, rent and prices have been generally low, taxes have not been reasonable and the management and administration of enterprises have "alo eaten from a common pot." These old conventions and formulas have created serious consequences. We must make a decision to carry out reform. For example, the state plan and municipal plan must be mutually linked up and municipal facilities must change from charging nothing to getting some compensation. We must collect fees according to quality for the sewage pipe we lay for industry, and we must increase the fee collected or impose a fine for sewage pipe laid which exceeds standards. We must readjust prices which are too low for public facilities. The price for water which industry uses should be higher than the actual price and the price for industry's gas must also be higher. We must receive the necessary subsidies for the capital construction of cities and we must collect a property fee or a property tax. We also must point out that there are many industries involved in urban and rural construction in many different ways, the policy sense is strong and reform is an extremely arduous and complex matter. We must seek truth from facts on the basis of investigation and research, and through experimentation from beginning to end and step by step we must carry out this reform.

The tide of reform is irresistible. Each industry must implement the socialist policy of distribution according to labor. The reform is a deep reform. Through reform we must break through "all eating from a common pot" and the passive situation of the task. We must stimulate and do a good job at undertaking urban and rural construction and strive to take a new road to urban and rural construction that suits our national conditions.

12437  
CSO: 4006/641

## CONSTRUCTION

### SHANDONG COMPLETES INSPECTION OF KEY CONSTRUCTION PROJECTS

Jinan DAZHONG RIBAO in Chinese 4 May 84 p 1

[Article by Zhang Huaiqing [1728 2037 3237] and Qu Fengyang [2575 7685 7122]: "Inspection of Key Construction Projects of Our Province is Completed, Leading Comrades of the Provincial Government Hear Reports and Ask for Further Strengthening of Leadership and Support in a Big Way To Guarantee Smooth Progress of Key Construction Projects"]

[Text] The major inspection of key construction projects of the province which began during the last 10 days of March was completed. Through this overall inspection of the 11 key national projects and auxiliary projects and some scientific and technical and cultural and educational projects in our province, we have gained a further understanding of the situation of construction projects and their problems, and furthered the smooth progress in the construction of the projects.

In the course of inspection, each locality implemented the spirit of making changes and adjustments as construction progressed and 70 problems were found. By now, 31 problems have already been solved. For example, the Jinan inspection team joined the leading comrades of Jinan City and the command headquarters of the double line Jiao-Ji Railroad, and negotiated settlements and solved eight problems that hindered the construction of the double line of the Jiao-Ji Railroad, including the problem of determining the location of the second power station of the Jinan Station, and the problem of procuring land and vacating occupants for the road to the new Licheng freight yard. The inspection teams that went to the mining areas negotiated with the provincial electric power department over the shortage of electric power for the construction work to rebuild the Zhongxindian project in Zou County and for testing the quickly provided an additional 1,500 kW of electricity for the Yanzhou mining area and basically satisfied the need for electric power for construction.

This inspection confirmed the achievements of our province in key construction projects and summarized experience, and also discovered problems. Since the beginning of this year, the key construction projects in our province have progressed smoothly because of the emphasis placed on them by the departments and the localities, the great support by the people of the entire province, and the enthusiastic efforts of the broad numbers of construction workers. The investment plan of the first quarter was completed rather well,

higher than the average level of investment completed throughout the province. But there were also many problems. Especially in "first using land and procuring it afterwards," money for some land has not been settled. Some localities did not uniformly arrange production and the standard of living of the masses sufficiently well. In some projects, designs could not catch up with construction progress, blueprints were produced late, and this affected progress in construction. Some localities also made unreasonable demands, asked for unreasonable charges and "took advantage of the state," and these practices were not corrected forcefully and handled strictly.

Recently, leading comrades of the provincial government heard the report on the inspection of the key projects of the whole province, and proposed four concrete demands: One is to continue to strengthen leadership, to further strengthen the work of the leading groups of the key construction projects of the province, and develop their leadership functions. All questions decided by the leading groups must be firmly and thoroughly implemented by each department, each prefecture, city and county. The second is to continue to mobilize the people of the whole province to support the key construction projects, to insist on the principle of the five priorities in procuring land and vacating occupants, supplying building materials locally, arranging design and construction forces, guaranteeing the supply of water, power and transportation, and supplying materials for living. Criminal activities of burglary, mass robbery of materials of key construction projects, injuring and beating construction workers must be firmly fought against. Practices of making unreasonable demands upon the key construction projects, demanding unreasonable charges and "taking advantage of the state" and unreasonably hiking prices must be firmly stopped. Serious cases must be severely dealt with. The third is to implement the regional and departmental responsibility system. The governments and concerned supervisory departments of the localities where the construction projects are located must delegate work related to supporting key construction to the unit and the individual, and establish a strict responsibility system. The fourth is that the leadership at each level must go frequently to the sites, investigate, study and solve problems in time to guarantee that the key construction projects progress smoothly.

9296  
CSO: 4006/528

CONSTRUCTION

BRIEFS

RURAL HOUSING CONSTRUCTION--Last year, private housing construction in our province's rural areas covered more than 13.44 million square meters, more than 220,000 families of farmers moved into new homes, and the investment in housing construction was about 310 million yuan. Now, rural housing construction in our province has already begun to follow the procedure of first starting with scientific planning, and then carrying out rural construction of towns and villages under leadership, with plans and step by step. According to incomplete statistics of nine regions, prefectures, cities as of the end of last year, 625 towns and villages had been planned. [Text] [Kunming YUNNAN RIBAO in Chinese 26 Apr 84 p 1] 9296

CSO: 4006/528

## DOMESTIC TRADE

### BEIJING EXPANDS COMMERCIAL SERVICE NETWORKS OUTLETS

Beijing CHENGXIANG JIANSHE [URBAN AND RURAL CONSTRUCTION] in Chinese No 6,  
5 Jun 84 p 22

[Article by Cai Mao [5591 6319]: "Beijing Steps Up Construction of Building Industry"]

[Text] The CPC Central Committee and the State Council in its written reply to "The Overall Plan for Beijing Municipal Construction" required the following: that Beijing's "commercial service industry must develop greatly within a short period of time" and must "improve the quality of service, improve the livelihood of the people and create a first-rate level of social service." The Beijing Municipal People's Government, in implementing the work in the "reply" of the CPC Central Committee and the State Council, has earnestly investigated and studied the construction situation for Beijing's commercial network outlets and in March of this year decided to accelerate the construction of the city's commercial service network outlets. It decided to make it possible for the commercial service industry to develop on a fairly large scale within a short period of time.

Since the 3d Plenum of the 11th CPC Central Committee, Beijing has maintained a policy of building up state-run, collective and individual enterprises at the same time and commercial service network outlets have developed quickly. At the end of last year, the number of network outlets in the city and suburbs totaled 25,000 (12,000 of which were individual network outlets) and 388,000 people worked in the retail commercial service industry. The number of networks increased 2.3-fold compared to the lowest level ever in 1970, but the gap is still great compared to 1952. The total retail sales of social goods in 1983 increased 17-fold compared to 1950, but the area used by commercial service network outlets for the same period increased only 2.2-fold. The present construction situation is far from suiting the needs of the people's livelihood and is not at all appropriate for the position of a great capital.

The Beijing Municipal People's Government in its decision to increase the construction of commercial service network outlets arranged a plan for network construction by the state and by project. In 1984, Beijing must increase the number of networks by 1,200 (700 state-run and large collective shops and 500 collective and individual shops). At the same time it must transform and upgrade 50 restaurants and quicken the pace of hotel construction. In 2 years

we should strive to mitigate the problems of "difficulties in eating" and "difficulties in staying at hotels." From 1985 to 1990, based on the state's financial and material resources, we should gradually reconstruct and transform Beijing's three large-city-class commercial service centers. We should quicken the pace of the construction of the five large city-class commercial service centers at Dongdaqiao, Beisanhuan, Gongzhufen, Haidian-zhen and Muxiyuan and cause them to form an initial supply capability. We must gradually expand more than 30 regional-class commercial service centers and the service capacity of 3 satellite cities and towns network outlets. We must basically establish a complete array of network outlets and trades. All newly-built residential areas must be in accord with relevant regulations, correspond well with the network outlets and satisfy the supply of goods of daily use for the people. Up to 1990, we must realize a rational layout of the city's commercial service networks outlets and fundamentally change the backward situation.

Currently, this decision has already been put into effect. In its implementation, the Beijing Municipal People's Government has adopted three effective measures:

First, maintain the policy of building up state-run, collective and individual enterprises at the same time; arouse the enthusiasm of each organization, group, enterprise, institution and rural cooperative; and mobilize the strength of society. The Beijing Municipal Government has promoted the experience of the Xuanwu area in building residences and increasing network outlets from Zhushikou to Guanganmen. In 1984, the city must emphasize the reconstruction of two large thoroughfares from Xuanwumen to Xinjiekou and from Chongwenmen to Beixinqiao. At the same time it must require that each area stress the construction of streets and use such methods as repairing, building, upgrading and project planning to increase the number of major street network outlets.

Second, the city must earnestly make a plan for developing network outlets and strengthen the management of network outlets planning. Municipal financial and trade departments and planning departments must cooperate and must investigate the present situation of the city's commercial network outlets according to area and business. On the basis of looking at and clearing up the situation and problems and based on "The Overall Plan for the City of Beijing," the city must propose both long-term planning and short-term development plans for city and regional commercial service centers and satellite cities and towns network outlets and must channel these plans into a detailed regional plan. According to the scale of planned construction for each commercial service center, the city must determine the specific site and the scope of land used and must carry out construction by stages and in groups.

The construction of network outlets must be completed synchronously with the construction of residences.

Third, strengthen leadership and perfect the organizational structure. The Beijing Municipal Government established a subcommittee for the construction of commercial service network outlets. Each district and county will establish

a corresponding organization and full-time personnel, be responsible for examining the construction plans for network outlets, supervise and investigate the circumstances for implementing the plan and coordinate the solutions to relevant problems. The city has changed the past situation of temporary organizations and temporary personnel being responsible for the construction of network outlets.

12437  
CSO: 4006/641

DOMESTIC TRADE

CIRCULAR ON FACILITATING COMMODITY CIRCULATION ISSUED

Fuzhou FUJIAN RIBAO in Chinese 20 May 84 p 1

[Article: "The Provincial Government Has Issued a Circular on Facilitating Commodity Circulation; Inspect and Consolidate Existing Inspection Stations and Checkposts; Cancel All Those Which Have Not Yet Been Approved"]

[Text] On 14 May the provincial government issued the circular "On Consolidating Checkposts and Facilitating Commodity Circulation," urging all localities to carry out a thoroughgoing inspection and consolidation of every type of inspection station and checkpost that has been set up. Any kind of checkpost that has not yet been approved for establishment must immediately be canceled in order to develop commodity production and facilitate the elimination of obstacles to commodity circulation.

The major points of the circular are as follows:

All industrial and commercial inspection stations which have been set up in every locality by all provincial, prefectoral, city and county departments, wood and bamboo inspection stations, communications and transportation stations and tax inspection stations must put themselves in good order and consolidate. Those which need to be retained must undergo examination by the provincial departments in charge and report to the provincial government for approval. Communes (subdistricts), brigades and business units without exception are not permitted to set up private checkposts. Any type of checkpost which has not yet been approved for establishment must immediately be canceled.

Provincial industry and commerce bureaus, forestry departments, transportation departments and finance departments must set down the scope of official responsibilities under inspection stations and checkposts according to relevant state stipulations. They are not permitted to exceed their authority or check indiscriminately or inspect farm and sideline products arbitrarily. Personnel charged with inspection work may not shoulder the responsibility on temporarily hired workers or family members. Inspection station personnel must all wear or display the uniform or insignia issued by each department, and in the performance of duty they must show their inspection license: otherwise, the transporter has the right to refuse inspection. Those few inspection personnel who use their official authority to violate the law and discipline, who are corrupt and

take bribes and who extort and blackmail should be dealt with severely, and if the circumstances are serious, they should be punished according to the law.

Taxes should be reorganized and financial management strengthened. Peasants must pay taxes according to state tax laws and are not permitted to evade taxes. All levels of tax departments are not permitted to levy a duplicate tax. Departments of industry and commerce, forestry, finance, tax, transportation, public security and city administration should carry out inspection and consolidation with respect to the scope and standards for the collection of fees of all types currently in effect. Those not in conformance with state regulations should be eliminated and duplicate charges corrected. There must be official receipts uniformly issued by the Ministry of Finance for the collection of fees at all types of inspection stations. Cash or material goods confiscated by inspection stations should be dealt with according to the laws of financial administration; money for routine expenses should be issued by departments in charge. Voluntarily taking out bonuses from confiscated income is not permitted.

The state protects according to the law the rights and interests of transporters of farm and sideline products. Concerned departments should support their normal transport activities. Units and individuals transporting farm and sideline products for profit should respectfully abide by state policy laws and related regulations and may not smuggle, indiscriminately fell trees, tyrannize the marketplace, drive up prices, evade tax collection or undermine the state procurement plan. Violators will be dealt with severely in accordance with related regulations.

12643  
CSO: 4006/611

## DOMESTIC TRADE

### MORE AGRICULTURAL CREDIT URGED

Kunming YUNNAN RIBAO in Chinese 11 May 84 p 3

[Article by Hou Mingjiu [0186 7686 0046]: "Need for both 'Timely Help in Time of Need' and 'Making Perfection Still More Perfect'--Tentative Discussion of the Need for Credit to Support Development of Commodity Production"]

[Text] Opinions vary greatly on the issue of whether loan support should be given to the specialized households that have sprung up in rural villages during the past several years. Some people approve while others disapprove, feeling that this would be an attempt "to make perfection still more perfect" or to "add fat to already fat meat." Just how should this matter be viewed? Some views are discussed here.

Commodity production that is sold in order to be able to buy differs from a production system of self-sufficiency that is "small but all-embracing" in that the production process is broken down by the social division of labor and by the fairly good development of exchange. A household specialized in grain production requires services that society can provide in superior seeds, machine plowing, chemical fertilizer, plant protection, storage and transportation in order to increase its labor productivity rate and achieve better economic results. It also requires a substantial investment of funds in order to expand reproduction. In 1983, a household specializing in grain production headed by Luo Qingzhi [5012 1987 5347] in Tuqiao Village, Penglai District, Yiliang County, sold the state more than 36,500 jin of commodity grain for an 82.8 percent commodity rate. The household's cash payments amounted to 2,500 yuan for machine plowing, purchase of chemical fertilizer, pesticides and diesel fuel, hiring of people to help with the transplanting and to queue up to sell surplus grain and the renting of warehouses. Expenses amounted to more than 30 percent of earnings. Yang Hongfu [2799 3163 4395], head of a household specializing in the raising of hogs in Shuanghe Village, Jinning County, can sell the state 128 head of fattened hogs a year, something that large-scale hog farms had not been able to do in the past. Specialized households have come about today as a result of a rational division of labor in the raising of feeder hogs and fattened hogs, supply of mixed feeds and purchase of mixed feeds exclusively. For such purchases, Yang Hongfu paid 3,745 huan in cash. Thus, the specialized households' development of commodity production will require credit, and the more developed the commodity production, the greater the demand for credit. Inevitably, commodity production will not develop in places not using credit funds.

Application of the economic lever of credit can give impetus to pioneer development in rural villages and can advance the development of rural industry, rural communications and transportation industries, rural businesses and rural cultural and educational endeavors as well as rural scientific and technical progress. In 1983 the business office of Mosha Commune in Xinping County borrowed 6,247 yuan to help a combination of 20 commune-member households headed by Dao Dongsheng [0430 2639 3932], a commune member in No 10 Production Brigade in Longhe County, in opening up 24 mu of sandy beach land. In the same year, they produced 192 tons of sugarcane for earnings of 13,440 yuan. They repaid 3,247 yuan of their loan during the same year. Nine commune-member households including that of Yao Alin [1202 7093 2651] in Kala Production Brigade, Yinyuan Commune, Yuanjiang County bought 42 horses and mules with 35,000 yuan of credit they had received. Between April 1982 and August 1983, they hauled a total of 720 tons of goods out of the mountain region, including 120 tons of grain, tea and coir fiber from isolated areas. As a result, the local supply and marketing agency's sales figures and agricultural and sideline produce procurement figures increased two- and three-fold, respectively, during the period from January to August 1983, and the problem of mountain region commodity flow was solved. This demonstrates the importance of credit in helping specialized households develop commodity production.

In 1983, the province's agricultural bank and its credit cooperatives issued loans of 100 million yuan to support the development of commodity production by 158,900 specialized households. These loans played a positive role in promoting a transformation of the province's rural self-sufficient and semi-self-sufficient economy to large-scale commodity production. In 1983, the Chuxiong Yi Autonomous Zhou had 30,917 households with earnings totaling 14.3 million yuan made possible by 5.8 million yuan in loans. Earnings amounted to 2.47 yuan for each yuan of credit, and income average 684 yuan per household. In Yuqi Prefecture, Bank of Agriculture and credit cooperative loans to specialized households accounted for 80 percent of all loans versus an average for the province of 32.9 percent, or more than double. As a result, Yuqi Prefecture is the one in which the development of specialized households has been fastest in the province. However, the circulation of condemnations such as "making perfection more perfect" and "adding fat to already fat meat" has resulted in some misapprehensions including the fear of taking risks and fears about the inability to collect on the numerous loans. It has also aroused fears that government policies might change with resulting future criticism. This has led to some places not daring to go all-out in supporting specialized households in the development of commodity production. A situation now exists in which large amounts of funds are needed to support the development of rural commodity production while, at the same time, large amounts of rural credit surpluses cannot play a full role. This is a problem awaiting solution that merits serious attention.

The main source of rural credit funds is rural savings; therefore, the issuance of loans must be predicated on the ability to make repayment. To this end, projects approved for credit must meet social needs. They must be not only socially beneficial but economically effective as well. This requires that borrowers have definite production skills and management acumen and be trustworthy as well. Some projects requiring investment or those that are

fairly large in scale may pose definite risks; thus, borrowers should be required to put up funds of their own as well for investment so as to increase their sense of responsibility. However, distinctions between the poor and the well-off should not be a factor in issuing credit. All commodity production that meets requirements for the issuance of credit are to be actively supported no matter whether a needy household or a well-off household is involved. Commune member Xu Guoliang [1776 0948 0081] of Niupo Production Team in Panji District, Huaning County, was formerly very poor. In 1983, he got a 2,500-yuan loan for the feeding of 69 goats, 4 calves and 5 oxen, which helped him progress gradually along the road from poverty to wealth. Xu Wenliang [6079 2429 0081], head of the Tai nationality team of Manzhangna Production Team, Qiaotou Production Brigade, Honghe Commune, Yuanjiang County, got a loan of 2,200 yuan from the bank in 1983, which helped him buy three horses and one horsecart. In the course of a year he hauled more than 30,000 jin of green manure and barnyard manure, and his gross output of grain reached 38,340 jin, 26,040 jin of which he sold to the state as commodity grain. If anyone had maintained that making a loan to him was "adding flesh to already fat meat" and that he should not receive support, he would not have been able to make such a large contribution to the country. Making peasants become rich as quickly as possible, and thus making a greater contribution to society, require credit funds to support the development of commodity production. This entails both "timely help in time of need" to help needy households gradually become wealthy and "making perfection more perfect," thus enabling peasant household commodity production to develop further. This is beneficial for the people of the country.

9432  
CSO: 4006/552

## DOMESTIC TRADE

### GROWTH IN COMMERCIAL PROCUREMENT, MARKETING DESCRIBED

Kunming YUNNAN RIBAO in Chinese 27 Apr 84 p 1

[Article: "Lively Urban and Rural Markets with Tremendous Growth in Commercial Procurement and Marketing"]

[Text] Provincial Governor Pu Chaozhu [2528 2600 2692] noted in the government work report that during the past 3 years we have taken hold of production with one hand and of commodity flow with the other. We have increased commercial network outlets, readjusted and expanded procurement and marketing activities, reformed the organization of grassroots supply and marketing cooperatives and increased commodity flow channels as well as improved administrative work style. Urban and rural markets throughout the province are lively, and procurement and marketing have grown tremendously.

Provincial Governor Pu Chaozhu said that in the course of 3 years, the province has set up more than 82,000 commercial retail network outlets, and more than 200 agricultural and sideline product exchange markets, trade warehouses and country fair trading sites. It has increased the number of employed personnel by more than 107,000. Twenty-four Category I and Category II agricultural and sideline products have been removed from centralized procurement and assigned procurement, and national list prices have been abolished for more than 500 small commodities. The management of prices has been liberalized. The first step in the reform of the grassroots supply and marketing cooperative system has been completed, and the supply and marketing of a mass, democratic and flexible character have been revived. State-owned, small-scale retail businesses as well as food and beverage and service businesses have all instituted operational contract responsibility systems. Some experience has also been accumulated in the reform of the overall administration of industry, agriculture and commerce. A large number of collective and individual businesses has also been developed. Urban and rural markets are unprecedentedly lively, and commercial procurement and marketing have grown tremendously. In 1983, the gross value of social product procurement was 6.21 billion yuan, a 78.6 percent increase over 1980. Gross retail sales of social commodities amounted to 5.85 billion yuan, up 42 percent from 1980. More than 1.35 billion yuan worth of transactions have taken place in country fair trade, an 89 percent increase. Definite growth has occurred in both the total amount of foreign trade procurement and exports. New achievements have also been scored in commodity price work. The tendency toward wild rises in prices has been virtually halted as a result of several major commodity price inspections of a mass character.

## DOMESTIC TRADE

### DEVELOPMENT OF COMMODITY PRODUCTION STRESSED

Shenyang SHICHANG ZHOUBAO in Chinese 1 May 84 pp 1, 3

[Article by Qing Bian [1987 6708]: "Deputy Governor Sun Qi Recently Pointed Out: Supporting the Development of Production of Commercial Commodities Is the Basic Starting Point and the Foremost Task of Commerce"]

[Text] At the provincial economic and scientific and technological work conference that concluded not long ago, Deputy Governor Comrade Sun Qi [1327 1142] pointed out in his talk: supporting the development of production of commercial commodities is the basic starting point and the foremost task of commerce.

He said: now, the rural areas are in a transition from a self-sufficient and semi-self-sufficient economy toward relatively large-scale production of commercial commodities. To enable the production of commercial commodities to enjoy faster development, we must strengthen circulation of commercial commodities and organize the exchange of commercial commodities well so that industrial and agricultural products can be smoothly converted into commercial commodities. If this transition cannot be realized, the production of commercial commodities will not be able to progress smoothly. As Marx said, realizing commercial value "is a risky jump. If this leap is unsuccessful, that which is broken will not be the commercial commodity, it will surely be the owners of the commercial commodity." This means, if circulation is poor and if exchange work is not organized well, they will severely hinder the development of the production of commercial commodities.

At present, the rapid trend of development in the circulation, exchange and production of commercial commodities is very unsuitable. Many sharp conflicts have confronted us. Some worry about the difficulty in selling grains, cotton, fruits and hogs. Some worry about accumulation of certain industrial products. Now, do we have more of these commercial commodities? No, generally speaking, our commercial commodities have not increased. They are far from satisfying the needs of the rising living standards of the people. Present development in the production of commercial commodities is still beginning and is still progressing prosperously. We must never repeat the past lesson of "stopping when there is more and catching up when there is less." We must conscientiously implement the principle of commerce established by the 12th CPC Congress: fully develop the function of commerce in promoting production, guiding production, guaranteeing supply, and making the

economy prosperous. We must begin by unclogging the channels of circulation and expanding the exchange of commercial commodities, conscientiously solve the problems of clogged circulation, blockage of channels, and difficulties in buying and selling. In treating the conflicts that have emerged between industry and commerce, and between production and marketing, we must start out from the actual situation and search for new methods of solution.

He also emphasized: in supporting the development of production of commercial commodities in the rural areas, we must insist on implementing the spirit of Document No 1 issued by the Central Committee, and concretely perform service work well. One is that the rural commercial departments must greatly support the development of the "two families." At present, the specialized families and key families that have emerged in the rural areas are the major producers in developing agricultural commercial commodities. The departments of commerce, food grains, supply and marketing and banks must implement the method of the "six priorities," i.e., provide help in key ways and give priority to opening up ways for production, providing information, propagating techniques, providing funds, adjusting the supply of raw materials, and procuring and promoting products. The second is to strengthen economic information and market forecasting. We must guide farmers in developing commercial commodities that are needed in the market, that can realize more profit and that have a strong competitive ability by suiting measures to local circumstances to avoid blindness. At the same time, we must also develop the tradition of helping poor families and families in difficulty to develop production, help poor families and families in difficulty to control poverty and become rich. The third is to widely develop joint agricultural and commercial ventures of many forms and many levels. We must organically join together scattered production by farmers, state plans and market needs, and closely link the economic benefits of agriculture and commerce together. We must further expand the scope of joint ventures. There must be new progress and new breakthroughs in production processing, purchasing and marketing, technical contracting and such areas. The fourth is to continue to adjust the procurement and marketing policies of agricultural sideline products. Last year, the province streamlined 158 kinds of first- and second-category agricultural sideline products of the state and under provincial jurisdiction to 66 kinds, and expanded the scope of third-category products and products available for negotiated purchase and sale. This year, in accordance with the spirit of the notice concerning the readjustment of procurement and marketing policies for agricultural sideline products issued by the State Council to the Ministry of Commerce, and in combination with the situation in our province, some varieties of products are being prepared for further adjustment and restrictions will be relaxed. The fifth is to conscientiously procure agricultural sideline products well. Last year, the work of procuring agricultural sideline products in our province was good in general, and the task was basically completed. But it also revealed many problems of unsuitability of our work. This year we must prepare early, investigate and study well, analyze today's trends in production and marketing of agricultural sideline products, adjust and establish additional procurement points, train procurement personnel, improve the method of procurement, simplify procedures and systems, expand intake ability, and provide convenience to farmers when selling their goods. In general, our work in commerce must take supporting the production of commercial commodities as the basic starting point and the foremost task in our present work.

## FOREIGN TRADE AND INVESTMENT

### CHINA'S 1983 FOREIGN TRADE REVIEWED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 3, Mar 84 pp 5-6

[Article by Huang Wenjun, deputy director of Ministry of Foreign Economic Relations and Trade Policy Research Office: "A Review of Developments in China's Foreign Economic Relations and Trade in 1983"]

[Text] China's foreign trade in 1983 was carried out under relatively unfavorable international economic conditions. In that year, although some of the Western nations' economies began to recover from their recessions, economic growth in the West as a whole was slow. Market demand was not brisk and world trade statistics remained at a low level. Nevertheless, under the guidance of the policy of opening up to the outside world and the principle of restructuring the national economy, and through the united efforts of various regions and sectors and our expanding economic and trade staff and workers, China made new advances in its foreign economic relations and foreign trade and achieved some relatively favorable results.

#### 1. Foreign Trade

In 1983, China upheld the thorough implementation of the principle of equality and mutual benefit in foreign trade, continued to actively adopt the various normal methods of international trade, and enthusiastically and effectively developed import and export capacity. The volume of imports and exports once again for the first time since 1981 surpassed U.S. \$40 billion. This year, due to favorable agricultural harvests and industrial development, and especially agricultural development, a rich base of materials was established to facilitate export trade. As a result, export trade grew consistently. According to our department's preliminary working statistics, the total volume of import/export trade was U.S. \$40.14 billion, 2.2 percent greater than in 1982. Of this, U.S. \$22 billion was in exports. Discounting the changes in the prices of export products, export trade in 1983 was 11.2 percent greater than in 1982. Following the initial development of China's capital construction and the technological transformation of its enterprises, import volume reached U.S. \$18.14 billion. Discounting the changes in commodity prices, import trade increased 21.4 percent. Compared with the past few years, 1983 represents the year in which import and export trade grew the most.

Following the development of China's industrial and agricultural production, 1983 saw some changes in the product structure of China imports and exports. In the export realm, the main changes were increases in cotton, grain, soybeans, edible oils, shelled peanuts, tea leaves, rosin, rabbit fur, and other local specialty sideline products, and cotton yarn, cotton cloth, silks and satins, cotton-polyester, clothing and other textile products. In the import realm, the main changes were increases in the following kinds of products: 1) fertilizers, pesticides and other materials to aid agriculture; 2) steel, copper, aluminum, rubber, industrial chemicals, timber, wood pulp and other types of raw materials products; and 3) equipment, instruments and meters used in technological transformation.

With respect to primary trading items, 1983 also brought some changes. Under the conditions of the great slide in the value of the Hong Kong dollar in September of last year, China's exports to Hong Kong continued to increase. Exports for the whole year were valued at U.S. \$5.3 billion, up 6.6 percent from 1982. According to preliminary statistics, China may have been Hong Kong's primary importer. With respect to Japan, exports decreased and imports increased, and trade was basically in balance, with the volume of import and export trade up substantially over 1982. Exports to the United States maintained their 1982 level. Imports dropped 38.3 percent, and there was a clear reduction in the deficit. Exports to the EEC maintained their 1982 level. Imports rose 36.5 percent, and our trade deficit with the EEC increased. Trade with the Soviet Union also registered fairly large increases over 1982.

## 2. Using Foreign Funds

In 1983, China continued to implement the principle of enthusiastically and effectively using foreign funds, and stepped up even more the policy of accepting foreign capital. In particular, the Chinese government has made distinct achievements in its expansion of policies regarding Sino-foreign joint ventures, and has made a decisive move to advance the development of the absorption and utilization of foreign funds.

In 1983, China signed new loan agreements in the amount of U.S. \$1.33 billion with foreign governments and international financial institutions. These foreign governments and international financial institutions include Japan, Italy, Kuwait, Denmark, Malta and the World Bank.

The attraction of direct foreign investment increased significantly, and this activity was a special characteristic of foreign fund utilization in 1983. There were 18 new contracts signed for joint offshore oil exploration, and the agreements reached included regulations for a foreign commercial investment of over U.S. \$1 billion. There are now 105 newly permitted Sino-foreign jointly managed enterprises (among which, 68 are in the special economic zones) and these have attracted foreign commercial investment in the amount of U.S. \$200 million. In the past 5 years, 188 Sino-foreign joint ventures have been allowed to be established. Compared with the past few years, not only did the number of Sino-foreign joint ventures established grow quickly in 1983, surpassing the total number permitted to be established in the past few years

combined, but there were also new developments in the kinds of industries experiencing direct foreign investment. There was a definite proportion of newly permitted joint ventures investing over U.S. \$10 million. Moreover, relatively large numbers of new technologies and new items for industrial production were introduced. There were approximately 200 contracts for Sino-foreign jointly managed projects signed between the various areas and departments and foreign businesses. In accordance with the contract stipulations, foreign businesses invested approximately U.S. \$180 million. Aside from this, there were also new developments in compensation trade, leasing trade, bond issues and other means of utilizing foreign funds.

### 3. Foreign Engineering and Labor Cooperation Contracts and Overseas Joint Venture Enterprises (Excluding Foreign Trade Enterprises)

This year, China's foreign economic and technological cooperation corporations have diligently and thoroughly implemented the administrative principle of "respect contracts, guarantee quality, seek small profits, and emphasize fairness." They have enthusiastically entered into the market for international contracts and labor service cooperation. In 1983 there were also distinct developments. New contracts were signed for 424 items worth a total of U.S. \$910 million, representing an increase of 80 percent over 1982.

While continuing to do a good job in cooperating with the countries of the Middle East, North Africa and other oil-producing countries, we have simultaneously strengthened our cooperation with other developing countries. This year, we have signed nearly 300 engineering and technical service contracts with Rwanda, North Yemen, Burundi, Nepal, Somalia and other countries. At present, we have already established engineering contracts and labor cooperation relationships with over 50 countries and regions.

Establishing joint venture enterprises overseas is an important means of developing foreign economic cooperations. In 1983, China's relevant corporations also signed 18 contracts to open joint venture enterprises with 13 foreign countries and regions. Some of these have already been opened, while others are still in the process of being opened. Most of them are joint venture industrial projects in the Third World countries. Aside from this, China is in the midst of negotiating cooperation in fisheries, forestry, mining and other areas.

In order to adapt to the needs of business development, China also established international economic and technological cooperation corporations in 1983. There are currently already 42 of these kinds of corporations in existence.

In order to improve the management of foreign economic relations and trade and to improve economic results, foreign trade enterprises carried out consolidation and adopted a new set of thoroughly feasible measures in 1983. They laid down a solid foundation for improving our foreign trade work and for improving economic results. This is a long-term task, and we must continue to push forward and seek improvements.

Opening up to the outside world, striving to develop foreign trade, and expanding economic and technological exchanges is a concrete and unchanging principle of our country. During the new year, we must continue to diligently and thoroughly implement these principles and strive for new developments in China's foreign economic and trade regulations.

12582  
CSO: 4006/514

FOREIGN TRADE AND INVESTMENT

UNFAVORABLE BALANCE OF TRADE ADVOCATED

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 6,  
15 Dec 83 pp 6-11

[Article by Ye Caiwen [0673 1752 2429] and Wang Shaoxi [3769 4801 3556]: "On  
the Balance of Trade and the Utilization of Foreign Funds"]

[Text] In the Present Stage, It Is Advantageous to Maintain an Unfavorable  
Balance of Trade Within Appropriate Limits

Since the Third Plenum of the Eleventh party Central Committee, China has carried out a policy of opening to the outside world on a basis of self-reliance and has begun utilizing foreign funds in order to speed up socialist modernization. The 12th CPC Congress also pointed out: "Opening to the outside world and increasing foreign economic and technological exchange in accordance with the principles of equality and mutual benefit is China's unchanging strategic policy." In addition, it stressed that China "must utilize, to the greatest possible extent, those foreign funds which can be used to carry out construction."

Under the guidance of the party's new strategic policy, China began to enter a new historical period of utilizing international credit to speed up economic construction. The terms of China's balance of foreign exchange went through a major change, and its relation with other sectors of the overall balance became even more complicated. When foreign funds were not utilized, in order to achieve a balance in foreign exchange, it was necessary on our own accord to keep income and expenditure roughly equal, or to have a slight surplus in foreign trade and sectors other than trade (including transportation, post and telecommunications, overseas remittances, etc.). Therefore, it was natural at that time to maintain a policy of basing imports on exports, estimating income to allocate expenditures, and maintaining a balance of foreign exchange and a slight surplus. To achieve a balance of foreign exchange now, we must jointly consider foreign exchange income and expenditure from foreign trade and sectors other than trade (normal projects) along with debits and credits on international funds (capital-change projects), so that we can borrow foreign funds to make up for normal projects which show a deficit in order to reach a balance of foreign exchange. A policy of basing imports on exports, estimating income to allocate expenditure, and maintaining a balance of foreign

exchange and a slight surplus is no longer practical. In the present stage, it is better to bring into play the strategic role of foreign trade in order to utilize all international factors which we can utilize. We must introduce practical and advanced technology and equipment from abroad on a large scale. The size of imports should not be limited by the size of that year's exports, nor should it be limited by the total of foreign exchange income from exports and the net foreign exchange income from sectors other than trade. We can maintain an unfavorable balance of trade within appropriate limits. In the period after the founding of the country, China successfully utilized a small amount of foreign funds to speed up construction of the industrial base. Then we were forced to pay off our foreign debt ahead of schedule. This created severe problems for our domestic economy, and we suffered. But we can not infer from this that it is necessary to have a balance of foreign exchange with no foreign debt. We could receive some interest and increase the country's foreign exchange reserves by maintaining a favorable balance of trade and depositing the surplus foreign exchange in foreign banks, but based on macroeconomic efficiency analysis of development of the national economy, the disadvantages at present would outweigh the advantages.

China is a developing country which is fairly backward economically and technologically and lacks sufficient materials and funds. Thus a favorable balance of trade means separating a portion of China's materials, funds and labor from the path of the country's expanded production and offering it for foreign use. This would worsen China's shortage of materials and reduce the scale of expanded production, thus affecting the speed of economic development. In contrast, an unfavorable balance of trade, importing more than is exported, means greater use of foreign resources and establishing an overall balance on a higher base, with the result that we could carry out expanded production on a larger scale and speed up construction.

A favorable balance of trade means leaving some of the capacity to make payments with foreign exchange unused and reducing the scale of China's imports, and it would reduce the amount of practical, advanced technology and equipment that China will eventually import. This would be disadvantageous for China's economic and technological transformation, while an unfavorable balance of trade would allow the importation of technology and equipment on a larger scale and speed up the process of economic and technological transformation.

A favorable balance of trade, in which the scale of imports is relatively smaller, prevents the role of imports in advancing the development of production from fully coming into play, particularly with respect to advancing the development of the production of export commodities. The further expansion of the scale of exports is then affected in turn, and within certain limits, it forms a vicious circle. But an unfavorable balance of trade, and importing on a larger scale, can provide a greater material and technological base geared toward the export industry, better carry out a technological transformation of the existing export enterprises, provide more raw and semifinished materials for export enterprises, and thereby expand China's export capacity.

A favorable balance of trade means that China converts export commodities purchased in part with RMB funds into foreign exchange and deposits it abroad. Because of this, on the one hand, national expenditure is increased, and there are no corresponding import commodities to compensate for it. On the other hand, using RMB causes this portion of funds to be pulled out of the domestic market, and it cannot play its proper role in circulation. Thus it may also increase the amount of currency put into circulation. This situation is harmful to the state balance of revenue and expenditure and price stability. But an unfavorable balance of trade and more import commodities can increase state revenue and also amounts to an increase in domestic funds. Thus it is beneficial to the state balance of revenue and expenditure and price stability.

At the same time, a favorable balance of trade, and depositing foreign exchange funds abroad, also raise the risk that the state will suffer a loss because of devaluation of the foreign currency.

In short comparatively decreasing the scale of import and maintaining a favorable balance of trade are not in accord with the strategic policy of utilizing two kinds of resources to carry out construction as stipulated by the party Central Committee, and it is harmful to economic development. But maintaining an unfavorable balance of trade within appropriate limits means utilizing even more foreign funds and technology to increase China's productive capacity and the scope of expanded reproduction. Thus it can promote the task of modernization.

Judging by the experience of economic development of various countries in the world, the great majority of countries underwent different levels of an unfavorable balance of trade in the process of economic development. Some countries only converted an unfavorable balance into a favorable one after their economies developed. Some developed Western countries adopt revised policies as soon as they produce a large surplus of foreign exchange revenue. And in fact, many developed countries do have an unfavorable balance. They all adopt measures to reduce their foreign exchange reserves (including their gold reserves) to a rather low level. In short, there are great differences between the conditions and circumstances of different countries. Yet with regard to most countries, and in particular most developing countries, a favorable balance of trade is not essential and beneficial. On the contrary, a moderately unfavorable balance of trade is essential in order to utilize foreign funds and to draw aid from foreign resources to make advances in the cause of developing the economy and trade of one's own country.

#### The Economic Results of Utilizing Foreign Funds to Expand the Importation of Technology

China is a developing country, and as long as international conditions permit, we should actively utilize foreign funds to import suitable advanced technology and equipment in order to narrow the economic and technological gap with the developed countries. Thus, being able to utilize foreign loans but not making use of them and the idea and practice of demanding that trade be balanced or maintaining a surplus are obviously wrong.

For a long time, we followed a policy of not incurring debts either at home or abroad in order to prosper. We only stressed that new China would never again experience the tragedy of being heavily in debt, controlled by imperialism, and with the masses living in dire poverty. We only saw the particularity of odious consequences brought on by China borrowing foreign loans as a colony or semicolon, and thus we totally repudiated the role of borrowing loans for each country to develop its national economy under the existing conditions. We did not see the universality of effectively utilizing foreign funds to possibly speed up economic development while remaining independent and keeping the initiative in our own hands. This indeed hindered us from adopting an active policy of maintaining an unfavorable balance of trade within appropriate limits and utilizing loans that can be borrowed to achieve a balance of foreign exchange.

We did not think that borrowing foreign funds could indeed achieve good economic results, that it might not lead to some bad consequences. In view of the economic results of various countries in the world borrowing foreign funds, the evidence is uneven. Most countries which have effectively utilized foreign funds have achieved success, and their national economies have undergone rapid development. Some countries achieved rapid economic development in the very first stage of utilizing foreign funds, but afterward the pace of development dropped, and the economic results were rather poor. An extreme minority of developing countries do not utilize foreign funds to develop their economies, but instead survive by borrowing, and the countries blindly borrowed foreign loans which were beyond thier ability to pay back. In addition, they did not utilize them correctly and created a great waste. This produced severe economic problems in which new loans were borrowed to repay the old ones. China has also learned a critical lesson in utilizing foreign funds. In 1978, because we lacked experience, we incorrectly believed that we could borrow a large sum of hard-currency loans on favorable terms, believing that borrowing hard-currency loans was more worthwhile than borrowing the seller's credit. As a result, at the end of that year, we signed 22 contracts for important projects without careful consideration, most of which were contracts with payments in hard currency. Afterward, only when we were better informed about the sources of hard-currency loans did we realize that the terms of hard-currency loans were extremely harsh. The contracts stipulated that we must pay the cost of equipment when delivered, with the result that they led to a large deficit in China's balance of payments on normal projects. At that time, China's reserves of foreign exchange were not large, and we were forced to borrow hard-currency funds at rather high interest rates from international financial markets. The annual interest on these hard-currency loans was as high as 15 percent, compounded semiannually, and in about 5 years the capital and interest would double. And those import projects of complete sets of equipment cannot possibly be set up and put into operation in such a short time. In addition, it is not possible for them to earn the foreign exchange to repay the debt, thus causing us to sink into debt. The main lesson of this experience is that signing contracts for import projects and borrowing loans under favorable terms were separated. We did not first take the initiative to ascertain sources of capital funds in foreign exchange under favorable conditions.

While guaranteeing national sovereignty and independence, it is most important to compare the economic benefits achieved after borrowing a loan with the cost of the loan to determine whether borrowing foreign loans will achieve good economic results or not.

If the former is greater than the latter, the economic results are good. If it is the reverse, the economic results are bad. The price that must be paid for a foreign loan essentially refers to the interest that must be paid. When borrowing foreign loans, a serious analysis and comparison should be made to get preferential interest rates. We should take the initiative to ascertain sources of capital funds under favorable conditions, and utilize mainly intermediate- and long-term low-interest loans. The economic benefits that can be achieved after borrowing foreign loans mainly refers to how the loans are used, importing appropriate technology, equipment, and raw and semifinished materials needed for economic construction so as to achieve the finest results in terms of macroeconomics. This is the key issue in utilizing foreign funds to speed up economic construction.

International and domestic experience proves: success or failure in the utilization of foreign funds depends on how the foreign funds are used. If they are used to expand the importation of advanced technology and equipment and import raw and semifinished materials appropriate for China, to increase the scale of reproduction, to strengthen and develop industry geared for foreign markets, to consolidate and develop the material base of exports, the good economic results achieved with them are obvious.

China should borrow foreign funds mainly to expand the scale of imports, to make up the trade deficit, and to achieve a balance of foreign exchange. When borrowing foreign funds, the balance of foreign exchange must not merely meet the normal level for that year's income expenditure, but must also meet that year's increased burden to avoid producing bad consequences for our international payments afterward. Loans must always be repaid. If the funds borrowed cannot effectively be put to use or achieve good economic results, they will create conditions for repayment afterward such that, or new debts will have to be incurred to repay the old ones. We will have fallen into the debt quagmire. The "balance of foreign exchange" would not be the actual balance because it would conceal the source of imbalance. The current deficit in normal foreign exchange projects (mainly foreign trade) may be made up by borrowing funds, thereby achieving a balance of foreign exchange. But in the long run, the repayment of foreign loans indeed depends on a surplus in the normal projects afterward. Therefore, looking at the complete historical period, the net amount of foreign capital drawn should be roughly equal to the net amount needed to pay off the foreign loans. In view of the whole process, normal foreign capital projects are still roughly equal, or produce a little surplus. The balance of foreign exchange with foreign debts is in the end converted into a balance of foreign exchange without foreign debts, but it is also a balance of foreign exchange without foreign debts at a higher level. To achieve such good results depends on how the foreign loans are utilized, and whether or not export earnings and the capacity to repay the debts are fairly quickly increased after the scale of imports is expanded.

Therefore, whether or not borrowing foreign funds to increase imports can achieve good economic results, and can prevent us from falling into the debt quagmire, mainly depends on whether we can correctly handle the dialectical relationship between imports and exports, and whether we can quickly convert the foreign debt into a capacity to produce increased exports, into conditions conducive to repaying the foreign debt. In the past, we only stressed the notion of exports as the basis of foreign trade, and that the size of export capacity should determine the scale of imports. We did not take seriously the idea that imports can strengthen the material base of exports, promote and spur on exports. At a certain level, this can certainly limit the increase of export capacity and the expansion of the scale of exports. By borrowing foreign funds, expanding the importation of advanced technology and equipment, quickly digesting and absorbing it, we can quickly raise productivity and the level of development, and form a new export production capacity which will bring foreign exchange earnings and be profitable, and thereby promote the expansion of the scale of exports. By borrowing foreign funds to increase imports of important raw and semifinished materials, on the one hand, we can better meet the needs of developing industrial and agricultural production, while, on the other hand, we can expand the scale of imports of raw materials processed into finished products for export, and thus can promote the expansion of the scale of exports. Thus borrowing foreign funds to increase imports, with the national economy overall in balance, would guarantee the needs of the four modernizations and raise the material and technological base of the whole national economy, thereby strengthening our export capacity. At the same time, we must also use some of the import items directly to develop industry geared toward foreign markets, to speed up the productivity of exports, and to increase exports in order to repay our debts and create favorable conditions. In this way, we can fully bring into play the role of import trade in promoting and giving an impetus to export trade. This will cause the export capacity of China to grow continuously stronger, the scale of exports to increase continuously, and thereby form a beneficial economic flow in the dialectical relationship between China's imports and exports. This would cause the strategic role of China's foreign trade in the four modernizations to be brought into play almost completely.

China's utilization of foreign funds is mainly for the importation of advanced, practical technology, complete sets of equipment or equipment of crucial importance. Whether these items can be absorbed, digested, and converted into a productive force very quickly depends mainly on two factors: one is whether these projects are suited to China's present economic and technological level, that is whether it is applicable or not. If the imported technology and equipment is not suited to China's current economic and technological level, it will not be put to use or it will not be absorbed, digested and converted into a productive force quickly. It is just a big waste and adds to the country's foreign debt burden. It will not create favorable conditions for repayment of our debt. Secondly, it depends on whether these items are suited to China's capacity to integrate them. The basic construction of imported technology and equipment must be done domestically, and China must allocate adequate domestic funds, technological forces and materials. If the imported items are not suited to China's capacity to integrate them, and thus cannot quickly be converted into a productive force, they are a waste. The main lesson of 1978

was that the items imported were divorced from the domestic capacity to integrate them, with the result that these items could not be put into operation and converted into a productive force for a long time. This added to the country's financial and foreign exchange burden. Therefore, when we borrow foreign funds to expand imports, it must be in accordance with the actual needs of the four modernizations, and must also accord with China's capacity to utilize, absorb and digest it, and China's capacity to allocate domestic funds, technology and materials. We must choose items seriously and carry out feasibility studies. When arranging to import items, we must clarify how much investment in domestic capital construction is needed, which sources of funds are to be applied, and we must avoid a situation in which we have to put pressure on normal state revenue or are forced to increase our investment and overturn our financial balance.

Under the premise that foreign funds can be utilized to increase imports of technology and equipment, the amount of foreign funds utilized by China in the current stage depends on China's ability to absorb and digest foreign funds and our ability to repay them. The ability to absorb and digest them and the ability to repay them are two sides of the same coin: the ability to absorb and digest refers to the amount of foreign funds that can be taken in, while the ability to repay refers to the amount that can be paid back in the future. These two are closely related as absorption and digestion form the productive forces which actually comprise the capacity to repay our foreign debt. Internationally, the most important index for measuring whether a country's level of debt has reached the danger line is the debt service ratio, that is the ratio of the amount of interest paid by each country at present to its foreign exchange normal project revenue. At present, this rate lies at approximately 20 percent. This rate can only be used for reference and must be linked with China's concrete situation, taking into account a certain degree of flexibility. At the present stage, the funds for construction held by the central government are insufficient, there is a shortage of skilled personnel, the level of technology and the level of management are rather low, and the early stages of preparatory work for the items selected, feasibility studies and so on are not keeping up. Therefore, in the near future, we will not be able to overcome objective conditions. We are making a blind advance, and the scale of foreign funds used is too big. At the same time, we must also actively utilize foreign funds which we need when the conditions exist to expand the scale of imports, to speed up construction. We must not obsessively seek a balance of foreign exchange, sacrifice favorable conditions, and adopt an overcautious and passive attitude toward utilizing foreign funds, and thus delay the process of the four modernizations.

#### The Relation Between Utilization of Foreign Funds to Increase Imports and Development of National Industry

The utilization of foreign funds to increase imports will certainly cause foreign technology, equipment, raw and semifinished products, and other goods to enter the Chinese domestic market on a larger scale. Here lies one problem of the relationship between increasing imports and developing national

industry. China's basic goal in utilizing foreign funds to increase imports is to increase our capacity for self-reliance, to promote the development of national industry, to quicken the pace of economic construction, and not to harm the national economy. Therefore, we should not utilize foreign funds to blindly import equipment which can be manufactured and supplied domestically, particularly daily necessities and consumer goods. Opening to the outside world, and expanding economic and technological exchange with foreign countries does not mean allowing the products of other countries to freely enter the Chinese market and freely compete with Chinese industrial products.

The question now is what kind of protectionist policies China should carry out in the present stage? Must we introduce a degree of competition within limits? Are carrying out proper protectionist policies or implementing policies which encourage competition beneficial to the development of China's national industry, and beneficial to the long-term interest of the economic development of China?

The history of the development of the productive forces of mankind is the process of each country and each nation trying to catch up with one another, with the backward becoming advanced, and the advanced falling behind. Historically, China was once an advanced country, but afterward it fell behind. And the countries of Western Europe, the United States, and Japan, which were once backward, one by one became advanced. After the international market was formed, the history of each country catching up proves that any country or nation which develops its industry from a backward one into an advanced one must carry out temporary policies to protect and prop up its national industry. Without such policies, the backward cannot become advanced. Germany and the United States in the 19th century were like this. Postwar Germany and Japan were also like this. Only by adopting a series of vigorous measures to protect and bolster our national industry since New China was founded did we cause the national industry of China to undergo continuous development and thereby establish a fairly comprehensive and independent industrial complex and national economic system. Therefore, in the current period when the level of technology produced in China is fairly low and our ability to compete is weak, it is essential to continue to carry out policies to protect and prop up our national industry.

However, carrying out excessively strict protectionist policies over a long period of time has produced a series of unfortunate consequences which have severely influenced the development of the national economy. For example, since national industry has been protected and propped up, it has been surrounded by a favorable environment for a long time. It monopolizes the extensive domestic market, enjoys all kinds of preferential treatment, and lacks any outside force for motivation or incentive. This produces an inertia of satisfaction with the current situation and not seeking progress. The rise in labor productivity and competitiveness is extremely slow. In addition, under strict protectionism, the connections between a country's domestic industry and foreign industry are cut off. As a result, we cannot quickly comprehend the strong points of others or see our own shortcomings. This often leads to arrogance and severely affects the progress of the level of technology and the production of national industry. Moreover, carrying out a policy

of excessively strict protectionism prevents full use of the international division of labor, is not beneficial for various sectors of the national economy to practice promoting strong points and avoiding shortcomings and to bring superior principles into play, and will not result in a more rational application of China's resources. Therefore, although it may be regarded that excessively strict protectionism may shield national industry from external attack to a certain degree, it may nevertheless also hinder the development of national industry.

We recommend that at the same time that we carry out conditional and temporary policies of protectionism, we must implement policies which encourage competition. We must not practice unconditional and absolute protectionism, and we must not reject all competition. We must protect those industrial sectors which are not very competitive yet have an important place in the four modernizations and will develop in the future. As these sectors become more competitive, we can distinguish conditions for relaxing or eliminating these protectionist policies. And those industrial sectors which can already compete on an international basis and do not need protection we should allow to enter the international market and compete, to progress in their development, and to improve. When these sectors face a new situation of stronger competition, then we should adopt appropriate protectionist measures. The competitiveness of the products of various industrial sectors is different, and there are great differences between the products of different enterprises within the same industry and the different products of different areas. Therefore, we must distinguish these different circumstances and adopt conditional and temporary policies of protectionism. In order to develop the national economy faster, while carrying out reasonable protectionist policies, we should seriously implement policies to encourage competition. The utilization of foreign funds to expand the scale of imports is mainly to expand the importation of new technology for converting old equipment, those capital goods which are needed for the four modernizations but which China cannot produce or of which productivity is not sufficient, as well as raw and semifinished materials urgently needed for economic construction. These imports can play an important role in promoting the development of the national industry of China. Some import products, including the import of some equipment, raw and semifinished materials, and consumer durables may put pressure on and cause problems for national industry in the short run, even to the point where some industrial enterprises will suffer a loss. However, introducing the pressure of some competition within limits will result in motivation, incentive, and initiative which have a bearing on the efforts of industrial enterprises to improve their technological level, increase productivity, lower prices, improve quality, change product design and color, and increase competitiveness. From the point of view of long-term economic results, this is beneficial to the development of national industry. Those ideas and practices which advocate reducing the scale of imports or simply blocking the importation of equipment to "protect" national industry will hinder the development of national industry. They do not accord with the objective demands of socialist modernization.

Thus it is evident that carrying out conditional and temporary policies of protectionism and implementing policies which encourage competition within limits are both essential to developing national industry. It is incorrect

to consider relaxing excessively severe measures of protectionism introducing competition within limits, and developing the national economy to be contradictory policies. In the same way, it is incorrect to consider the utilization of foreign funds as contradictory to developing national industry.

Naturally, since imports were not appropriate in the process of opening up to the outside world, there were shocks to the domestic market and shocks to the development of national industry. For example, large-scale importation of cars, machinery and other items with import limits, and excessive importation of certain consumer durables must be corrected. However, as long as these products are imported within appropriate limits, they will play a definite role as incentive and motivation for the development of national industry. For example, in the past few years, the production technology and the quality of China's consumer durables improved very quickly, and certain products have already achieved high international standards and have begun to be exported. This cannot be separated from the importation of consumer durables. Due to the importation of television sets, refrigerators, and radio/cassette players, there is pressure on the sale of products of related domestic enterprises, forcing these enterprises to learn advanced technology more quickly, to raise the quality of their products, and to quickly raise their competitiveness, thereby speeding up the development of these national industrial enterprises.

In short, actively utilizing foreign funds and increasing the scale of imports of advanced technology and equipment, while carrying out conditional and temporary policies of protectionism and implementing policies to encourage competition are in accord with the long-term interest of the development of the national economy of China. These policies will bring into play their proper active role in the great struggle to begin the new phase of socialist modernization.

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FOREIGN TRADE AND INVESTMENT

CHINA'S FOREIGN TRADE OUTLOOK DISCUSSED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 1, 27 Jan 84 pp 29-31

[Article by He Xinhao [0419 2450 3185]: "Review of and Outlook for China's Foreign Trade"]

[Text] I. 1983: A Year of Sustaining Growth Amid Difficulties

Despite signs of resurgence in the Western economy in 1983, world trade was still ridden with crises while the volume of trading continued to decline and the market was in the doldrums. This also adversely affected China's foreign trade. Although China's economy in that year was marked by fairly rapid growth, its economic policies of controlling investments, increasing revenues and cutting expenditures as well as raising results have also raised new requirements on the growth of foreign trade. China's foreign trade in the past year gained continued growth in the economic situation prevailing at home and abroad.

According to customs statistics, the gross volume of China's import-export trade from January to September of 1983 was up by 9.5 percent in terms of PRC currency over the same period last year. On the other hand, the capacity for supplying export products showed fairly big increases compared with preceding years. Regarding bulk imports such as grain, sugar, chemical fertilizer, steel supplies, non-ferrous metals, wood pulp, etc., all of them have met or surpassed import plans.

The growth characteristics of China's foreign trade in that year are given below:

- (1) The growth of trade volume was greater than that of trade value. According to estimates made in the first 3 quarters of that year, the annual trade volume was up by about 15 percent, with the estimated rise in trade value of about 2 percent. This situation was primarily due to the recession in the international commodity market and a general drop in the price levels. According to estimates based on available data, the prices of China's export products in that year on the average dropped about 19 percent, those of its imports by about 15 percent. Hence, the rise in turnover was mainly due to the growth in trade volume. (2) With the growth in imports surpassing that of exports, there was some decline in the favorable trade balance. As the

growth in import trade volume for the whole year exceeded 20 percent, there was still a rise of about 3 percent in trade value calculated in terms of the U.S. currency after the price drop factor was offset. Although the growth of the export trade volume was about 10 percent, there was practically no increase at all if the trade value were calculated in terms of the American dollar. Since the base figures of last year's import and export trade volume differed, in terms of absolute value exports would surpass imports despite the faster growth of imports over that of exports. (3) The market structure appeared to move toward diversification. Japan, Hong Kong and the United States remained China's major trading partners. The trade volume with Japan and Hong Kong generally kept up with the previous year's level or was up slightly. Trade between China and the United States was affected by the U.S. government's unilateral action in restricting China's textile exports to the U.S. and by the appropriate measures taken by China. Although agreement on the textile products issue was reached later, the time lost during that period resulted in a decreased trade volume between the two countries. However, trade between China and West European Common Market nations on the one hand and the Soviet Union and East European countries on the other showed marked increases, registering about 24 and 20 percent in growth, respectively, over those in the preceding year. The volume of imports from West European Common Market countries showed a rise of nearly 50 percent.

In that year, the major problem of China's foreign trade was the dwindling results achieved in the promotion of foreign trade. As a consequence of recession in the international market and the lack of integration in operations, export prices dropped and revenues decreased. On the other hand, the higher prices for the purchase of export products caused export costs to rise steeply and revenues from exports to drop. Although the prices of import products slumped, the import prices of many of them were still much higher than the wholesale prices specified by the state on the domestic market, even markedly higher than retail prices. Over the past years the state compensated for import trade losses with profits derived from exports. However, as revenues from last year's exports decreased, less compensation was given to imports by the state with heavy financial burdens. For this reason, the handling results of foreign trade thus became a prominent problem in the promotion of foreign trade.

## II. 1984: A Year of Continued Readjustment

Making use of two markets and two kinds of resources while giving full play to the function of foreign trade in speeding up the four modernizations is a component part of China's economic development strategy. At present, the problems involving the promotion of foreign trade must be solved before they can conform to the requirements of economic development. While it is essential for enterprises handling foreign trade to improve their business operations before the question of achieving results in the promotion of foreign trade can be solved, what is more important is that unless the necessary readjustment is made from policy to the system itself nothing can be achieved.

China's foreign trade system is based on the socialist system of collective ownership and the planned economy. This system stresses the important

characteristics of severing the direct connections between market prices at home and abroad, establishing the two-tier price system and making it practically possible for exclusive state handling of imports and exports and accountability for their profits and losses. This system goes a long way toward promoting an overall balance in the national economy and the stability of commodity prices and safeguarding agricultural and industrial production from being affected by international market price fluctuations. This exemplifies the superior advantages of the socialist system of foreign trade. However, under certain historical conditions, this system, if not applied flexibly and with sufficient leeway, may to a certain extent restrain the development of foreign trade itself. For more than 30 years after World War II, important changes occurred in the international market. In the years before the 1960's, when the capitalist world fixed the exchange rates and adopted the system of pegging the U.S. dollar to the gold standard, the price levels on the international market quoted in the U.S. currency remained fairly stable, although there were inflation and sharply rising commodity prices in many countries. Only certain commodities in short supply showed signs of fluctuation in their prices. Under these circumstances, the superior advantages of promoting foreign trade on the basis of the two-tier price system are more apparent for all. However, in the years since the 1970's, which saw the collapse of the international monetary system characterized by fixed exchange rates and the non-conversion of the American dollar into gold, the inflationary torrents of capitalist countries broke loose into the world market, causing worldwide commodity prices to rise steeply across the board but drop slightly during certain periods. As China's foreign trade was not appropriately regulated by exchange rates and the country lacked an apparatus to regulate imports and exports, the practice of importing many categories of commodities at high prices and selling them at low prices inevitably brought considerable pressures on the results of foreign trade programs or on the state treasury. As for the system of unified operations and unified accounting, for another example, it is primarily intended to use profits to compensate for losses incurred so as to ensure necessary imports and exports and to promote balanced integration in the reproduction of materials in the national economy. This system was very effective during the war and immediate postwar years when material supplies were scarce and the level of productivity rather low. However, during the normal period of economic reconstruction, the use of loosely compiled accounting methods tends to abet waste and reduce efficiency. After more than 30 years of economic construction undertaken in China, particularly in recent years of economic development, productivity in the country has gone up considerably to provide abundant material supplies. Whether imports or exports, greater options are now available while an overall balance in the national economy in relation to the requirements of foreign trade and a gratification of material needs are no longer considered to be of overriding importance. As for the financial system of foreign trade, which stresses exclusive control of revenues and expenditures, it will be difficult to eliminate the abuse of "eating from the big pot of rice." In recent years, reform of the foreign trade system has focused on the decentralization of operations by breaking up the two interrelated systems of unified operations and unified accounting. This has aggravated the incompatibility between these systems and economic development. Despite the benefits this reform may bring to other fields, it is counterproductive as far as the results of foreign

trade promotion are concerned. This shows that solving the problem involving the results of foreign trade promotion at this moment is not purely one of work method. It involves the vitally important issues of foreign trade as related to the economic policies and systems of the state.

Foreign trade readjustments should be relatively comprehensive, encompassing as it should a readjustment of the relations between foreign trade and the overall state economy. This calls for a number of changes such as planning and guiding the concepts that pay more attention to the balance and shifts of the material aspects and a balance in values, shifting the production of export commodities from subordination to production facilities to compliance with market needs and reversing the order of quantity before quality to that of quality before quantity, shifting from the present simplified form of diversification to a rational division of work under unified supervision and paying attention to using more economic means such as remittance fees, tax revenues, year-round accounting, material incentives and fines, apart from continuing to strengthen foreign trade control. Only thus can the results of foreign trade operation be successfully achieved.

### III. Prospects and New Topics

At present, it is an opportune moment to readjust China's foreign trade. In the first place, China's export trade has achieved rather significant growth over the past years, accumulating relatively abundant foreign exchange reserves. This has provided a fine material basis for the readjustment of foreign trade. Second, after conducting tests in institutional reforms for several years, problems existing in foreign trade have appeared more clearly. This has provided a useful experience from both the positive and the negative views. Third, with the world economy gradually on the way to recovery and the international market becoming alive again, these trends are of advantage in increasing the revenue from foreign exchange of the units handling exports.

Both imports and exports will be affected to a certain extent by foreign trade undergoing readjustment. As the structure of export commodities will be slightly readjusted, some products of inferior quality but costing more and making less of a return in foreign exchange will be controlled or eliminated. The export estimates for 1984 will be slightly readjusted. However, in the long run this readjustment will prompt China's export trade to take the road of putting quality before quantity. This will be of advantage in enhancing the prestige and increasing the competitiveness of export products on the international market, thus creating better conditions for future development.

As to imports, in view of the well-rounded and even development of China's economy, the demand for foreign products will not decrease. The growth of imports for that year was expected to surpass that of the preceding year.

To achieve the anticipated positive results in the readjustment of foreign trade, the crucial problem in the first place is for the export sector and the enterprises to upgrade the quality of products, speed up the technical transformation, strive to attain the overall quality standard of export commodities, lower the costs of unit products and raise economic results.

Second, whether or not the management level of foreign trade can be speedily raised, the readjustment of foreign trade means that both the macro- and micro-management of foreign trade should be raised to a new high level. Since economic problems are complicated, any economic measure always has its positive or negative aspects. To solve an economic problem often requires the adoption of manifold measures from every aspect that can complement each other so that the positive aspects of the economic measure can be developed to the maximum while its negative aspects can be reduced to the minimum. For this reason, macro-management requires a penetrating and comprehensive study, thus setting a clearly defined goal with foresight so that decisionmaking is built on a scientific basis. At present, the macro-management system applied to China's foreign trade such as foreign exchange, tax revenue, prices, permits, etc. should be perfected on the basis of conducting a comprehensive study. As for the enterprise management of foreign trade, the system of itemized accounting should be developed. The traditional method of a division of work according to import-export business procedures should also be improved. In addition, the responsibility system related to items should be developed, apart from training senior qualified personnel who are capable of understanding the complete course of itemizing as well as able to handle itemized accounting.

Providing complete information and communications is the basis of modern scientific management. At present, China is very weak in this aspect. Therefore, a system of providing complete business information and communications according to national priorities and business requirements should be established so that leading organs, enterprises and research organizations can have access to available information and thus increase the efficiency and upgrade the quality of their work.

Continuing the search for a foreign trade management system is also an important task related to the goal of readjusting foreign trade. Integrated operations, plans, finance, materials, labor and wages are all closely related systems while the foreign trade structure is linked to the economic structure throughout the country. Therefore, in reforming the operation structure, we must proceed from the overall situation before we can coordinate all related factors. This lack of coordination should be overcome.

The new year is not an ordinary one for the development of China's foreign trade. The readjustment being introduced this year marks an important step toward reform and the goal of signaling that China's foreign trade is on the way to healthy growth with raising the economic results as the focus. The outlook for China's foreign trade will certainly be full of bright prospects.

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SINO-JAPANESE TRADE RELATIONS DEVELOP STEADILY

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[Article by Wei Xiaorong: "Sino-Japanese Economic and Trade Relations Enter a Stage of Long-term and Stable Development"]

[Text] A Solid Foundation

This year marks the 10th anniversary of the signing of the Mutual Trade Agreement by the governments of China and Japan. The preface of the Mutual Trade Agreement stipulates that the governments of China and Japan will "respect the achievements already accumulated through the trading relationship carried on by their individual citizens and will, based on the principles of equality and mutual benefit, further develop trade between the two countries and strengthen their desire for an economic relationship between the two countries. They will reach agreements through friendly negotiations." This passage accurately reflects the course of development of Sino-Japanese trade. Moreover, it strongly pushed forward the advancement of trade relations between the two sides. During the 10 years since the signing of the agreement to the present date, the volume of Sino-Japanese trade has expanded from U.S. \$3.3 billion in 1974 to over U.S. \$10 billion this year. Trade has nearly quadrupled in these 10 years. The attainment of these impressive achievements has taken us along an often bumpy road. Back before the establishment of diplomatic relations, the governments of China and Japan had signed their first people's trade agreement in 1952. Subsequently, they also signed second, third and fourth people's trade agreements. By 1962, Japan and China had developed friendly trade and trade via memoranda. In 1974, the governments of the two countries signed an official bilateral trade agreement. In order to adapt to the needs of the changing situation, through long consultations and mutual efforts of trade representatives from both sides and with the support of both governments, the two countries signed the Sino-Japanese Long-Term Trade Agreement in February 1978 in Beijing. The regulations in the agreement were to be effective for 8 years (from 1978 to 1985). Under the agreement, each side would export approximately U.S. \$10 billion worth of goods to the other. Subsequently, both sides agreed to extend the effective period to 13 years (from 1978 to 1990), and each side would export U.S. \$20 billion to \$30 billion worth of goods to the other.

The Long-Term Trade Agreement stipulated that China would export crude oil and coal (including fuel coal and coking coal) to Japan, and Japan would export complete sets of technological equipment and building materials to China. Aside from this, the two sides also agreed in September 1982 that technological equipment and individual machines imported from Japan to China to upgrade existing enterprises would also be included in the Sino-Japanese Long-Term Trade Agreement. When the agreement was signed in 1978, it regulated the amount of Chinese crude oil and coal exports to Japan for the first 5 years (1978 to 1982). From November 15-22, 1983, a group of representatives of the Long-Term Trade Agreement Committee, led by Director Liu Xiwen [0491 1585 2429], visited Japan. Director Liu Xiwen and Toshio Doko [0960 0342 2404 1133], chairman of the Japan-China Long-Term Trade Agreement Committee, arranged the meeting agenda to discuss the current situation facing the Long-Term Trade Agreement and the problems it will face in the future. At the meeting, both sides reviewed the situation of the 5 years that have passed since the agreement was signed. They believed that through the mutual efforts of both sides, favorable results had been achieved and a good foundation had been laid. In order to further develop economic and trade relations between the two countries, both sides agree to strengthen cooperation not just in crude oil production but also in other areas benefiting both sides. In accordance with the changing situation with respect to the crude oil requirements of both countries, they agreed through friendly negotiations to change the amounts that were set down in Beijing on September 23, 1982 with respect to China's coal exports to Japan. Fuel coal was revised from 2.3 million tons to 2.5 million tons, and coking coal was revised from 1.5 million tons to 1.7 million tons. Saimonda Tatsuzo [5932 7024 3944 6671 0005], permanent member of the Japan-China Long-Term Trade Agreement Committee and head of the Power Development Corp said: The change in Japan's crude oil needs was understood by the Chinese side, and I believe that China is an energy-producing nation that can be trusted. I hope that from this day forward we can continue to carry out long-term and steady cooperation in the field of energy cooperation.

The volume of import and export trade that falls under the Long-Term Trade Agreement comprises most of the volume of Sino-Japanese trade. With the exception of 1982 it has increased consistently, making up approximately 40 percent of the total volume of Sino-Japanese import/export trade. It is, therefore, clear that the Sino-Japanese Long-Term Trade Agreement occupies an important place in the Sino-Japanese trade relationship and, moreover, that it has come to play an active role in the long-term and steady development of economic and trade relations between the two countries and in the advancement of Sino-Japanese friendship.

#### An Encouraging Step

Economic and trade relations between China and Japan have grown out of individual-based trade relations and by now they have already entered the stage of overall economic cooperation. In 1978, China and Japan signed a Sino-Japanese Friendship and Peace Treaty, created a reliable political foundation for Sino-Japanese trade and economic cooperation and, moreover, took an encouraging step further toward expanding economic cooperation between the two sides. This year China has adopted various methods to stimulate trade, from reprocessing of textiles and other light industrial goods to the

large-scale development of cooperation in crude oil, coal and other areas; from one-time, ad hoc trade to comprehensive, long-term compensation trade; from the technological transformation of enterprises to economic cooperation in developing harbors, freight and transportation, agriculture and other areas, and from the adoption of individually determined methods of payment to the receipt of loans to jointly manage enterprises and the issuance of yen-denominated bonds. Both sides are currently involved in researching the problems of establishing sole ownership enterprises in China. We are pleased to see the Sino-Japanese economic cooperation is still expanding and continually making new advances.

From 1979 to 1983, the Japanese Government provided China with 300 billion yen in overseas economic assistance fund loans to be used for the construction of two ports and two railways. The construction of these projects is in the process of being carried out smoothly. A second group of loans is now being discussed by the relevant departments of the two governments. China has already put forth 19 projects, and the Japanese have already indicated that a Japanese international task force is carrying out feasibility studies on seven of the projects. During this period, the Japan Export-Import Bank has provided China with 420 billion yen in energy-related loans to be used for the exploration of the Chengbei, Huabei, Shengli and Bohai oilfields. Among these, exploration of the Bohai Oilfields is already being carried out smoothly. By August of 1983, 12 exploration wells had been drilled, 8 of which have already produced oil and gas. Among the 51 factories that are undertaking technological transformation through cooperation by China and Japan, 5 have entered commercial negotiations and 3 have signed contracts. Altogether there are 21 Sino-Japanese joint ventures, 7 of which are located in China. The amount invested in these enterprises comprises about 9 percent of the total volume of foreign investment in China.

#### A Bright Future

China and Japan are neighbors, and economic cooperation between the two countries enjoys the favorable conditions of weather, geography and support of the people. Currently, China's exports of crude oil and processed goods comprise about 50 percent of our total exports to Japan. The rest includes textiles, edible oils, livestock, five kinds of metals and other products. China's principal imports from Japan include steel materials, complete sets of equipment, fertilizers, and so on. This product structure basically serves the current mutual needs of both countries.

This year China has been carrying out the adjustment of the national economy and implementing the policy of opening up to the outside world, enabling us to overcome various political and economic difficulties and to follow a course of healthy economic development. Industrial and agricultural production has been growing consistently, and last year industrial and agricultural production plans were surpassed. China's developing economy and its policy of opening up to the outside world have received praise from political and economic circles, creating favorable conditions for the development of Sino-Japanese trade relations. Not long ago, Mr Toshio Doko, Chairman of the Japan Economic Association, clearly pointed out: In the area of Japan-China

economic and trade cooperation, where feasible conditions exist, we must strive to make great efforts toward cooperation. Japan's Ambassador to China, Katori Yasue [7773 0648 3141 5898], also pointed out: from this day forward the future of Sino-Japanese economic and trade relations is a bright one. Continuing to give assistance to China's economic construction is a basic principle of the Japanese Government. When General Secretary Hu Yaobang visited Japan, he met with Premier Nakasone. They further delineated the four principles of the Sino-Japanese relationship, and received praise from scholars of all circles in both countries for doing so. The leaders of the two countries also agreed to establish the 21st Century Committee, to strengthen contacts between the youth of both countries. This move created more favorable conditions for the development of long-term and stable Sino-Japanese relations and economic and trade relations. In March of this year, Premier Nakasone visited China. His visit will prove to have played an active role in promoting Sino-Japanese friendship, and the long-term steady development of Sino-Japanese economic and trade relations.

Looking back on the progress we have already achieved makes one feel both pleased and encouraged. We are looking forward to the future, a future of bright bright prospects, and we are full of optimism. A flourishing spring means a fruitful autumn: we must be careful to cultivate our relationship. We hope that both sides will work hard together to allow Sino-Japanese economic cooperation to blossom.

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FOREIGN TRADE AND INVESTMENT

GUANGZHOU IMPLEMENTS PLANS FOR DEVELOPMENT ZONE

Guangzhou GUANGZHOU RIBAO in Chinese 31 May 84 p 4

[Article by Yuan Shibang [5913 1709 6721]: "Borrow From Foreign Experience in Doing a Good Job of Planning for Development Zones"]

[Text] Editor's Note: The central authorities have fixed Guangzhou as one of the 14 coastal cities to be opened up further to the outside world. Since the publication of the policy decision of the central authorities, the people all over the city became extremely concerned about how to set up zones for economic and technological development in Guangzhou. Recently, the concerned departments invited specialists, scholars and practical workers from various circles to convene study and discussion meetings on several occasions. Here are the opinions of some comrades. Regarding the issue of how to establish zones for economic and technological development in Guangzhou, further proofs from various aspects are still necessary. This paper is prepared to publish follow-up articles and welcomes suggestions from people from various circles.

Planning for development zones is a complicated and difficult job. It not only must consider how to draw in investment from abroad but also must consider whether or not it can repay the principal plus interest for its own development investment. Thus, to come up with a successful and profitable plan for development, we must carry out a great deal of investigation and research and design work. Currently, in other areas of the world, the Yulang Industrial Zone in Singapore was developed in a relatively successful manner. However, it took over 8 years before a plan for development came about. Now, in making plans, with the cooperation of many units and through absorbing the experiences of other people, we can greatly shorten the period of planning.

In view of the ideas about the preliminary planning for the zone of economic and technological development in Guangzhou at present, the point selected as the zone for development is appropriate. However, with regard to carrying out development at different stages and determining the size, big or small, of the area of development, we must take into consideration in a comprehensive manner the trend of the market, the items and scale of investment expected to be

drawn in and the potential factors for development (such as the successful drilling of petroleum in the South China Sea). In light of foreign experiences, the factors affecting the appeal of the development zone to foreign investment are as follows: 1) Whether the labor cost is high or low; 2) whether or not we can provide suitable factory buildings and land for industrial use; 3) whether or not the charges for land use are cheap; 4) whether we offer more favorable or less favorable treatment; 5) whether or not there are restrictions in domestic sales; 6) whether or not the markets for exports are near; 7) whether or not the supply of electricity, water and fuel is stable; 8) whether or not our monetary service is fully equipped; 9) whether or not the harbor is good; and 10) whether or not the living facilities are sound. In the case of the Yulang Industrial Zone in Singapore, the country is small and there is very little room for choice. The development of rubber plantations and shrimp ponds can only be planned on the hilly and swampy districts, roughly 6,000 hectares in circumference. However, from the angle of industrial development, there are many outstanding points about this disolate zone. For instance, the area is broad and the population is sparse. It can hold many factories. There were only some 1,000 households living there, so it was not very difficult to make arrangements to relocate them. The zone is situated along the coast, with deep harbors and a long coastline. The routes of the harbor are close to the international routes. The zone is only roughly 12 miles from the city, with smooth communications. It is possible to use the earth from the hills to fill the swamp, thereby making construction easy and economical, and so on and so forth. Compared to Yulang, Huangpu has its strengths and weaknesses. In general, the factors are comparable. The only problems are that the selected point of Huangpu has a population of over 26,000 residents; there are many factory sites, with more sources of pollution; the factor of sea transportation is also inferior; and the fees involved in construction in the future may be a bit higher.

What we should consider is that the development zone will give priority development to advanced technological industries. Thus, we may have more comprehensive processing and assembling industries. There will be greater and greater demand for air transportation by commodities with added value due to advanced technology and advanced processing as well as parts for assembly and repairs. In addition, businessmen and investors of modern international enterprises will frequently be rushing about all over the world. Convenient aviation service is urgently required. Thus, in planning for the development zone, we must pay attention to creating the factor of being close to international airports and also pay attention to providing modern communications facilities. Otherwise, inconvenient air transportation and ineffective information will weaken the appeal of the development zone to foreign investment.

Second, we must consider properly the sources of funds for the development zone. The development of the Yulang Industrial Zone relied on a long-term (20 to 60 years) low-interest loan from the Singapore government; relied on the income from leasing residential quarters, factory buildings, factory addresses, offices and land for industrial use as well as from selling residential quarters and standard factory buildings; and relied on the income from the business market and the service trades. With regard to the funds for

development on our part, we can also obtain bank loans as well as employ the leasing method on a broad scale. Currently, our country has already had such monetary organizations as the China Leasing Company, Ltd.; the Dongfang Leasing Company, Ltd., which is jointly operated by China and Japan; the Guangdong International Leasing Company; and the trust department of the Bank of China as well as other leading services of a business monetary nature or a service nature. The development zone can establish relations with them in order to solve the problem of the short-term use of long-term equipment. Furthermore, we can also consider as a source of funds the issuance of bonds and stocks when the conditions are ripe.

While doing a good job of planning for the Huangpu Development Zone, I feel that Guangzhou can consider establishing development zones in one or two additional places. In view of the present idea about building development zones in the coastal cities of our country, the following places have mapped out the building of two or more development zones: Beihai, Zhanjiang, Shanghai and others. Guangzhou not only has the task of importing advanced technology but also has the heavy burden of transforming old enterprises. In addition, it also has the responsibility of a key city. Thus, it is rational to bring forth several development zones. In light of foreign experiences, for instance, in the United States, according to the foreign trade legislature, an enterprise can make sole application for building a foreign trade zone. In the Philippines, with the approval of the government, some important enterprises not only can set up processing and export zones but can also enjoy the treatment given to the processing and export zones. In Singapore, whether the enterprise is set up in the Yulang Industrial Zone or in another region, as long as it meets the rules for newly developed industries, the rules for the expansion of export and the rules of enterprise expansion, it can enjoy such preferential treatment as a tax reduction or exemption. We can borrow from these inspiring methods in carrying out the transformation of old enterprises and in importing advanced technology.

Lastly, in planning for the zone for economic and technological development, we must carefully consider the problem of the further research and development of imported technology and the popularization of the results of this research and development. Generally speaking, the developed countries of the West can give us technology. However, they will not spare one drop regarding the work of research and development, especially the results of research and development, and will keep them all to themselves. If we do not attach importance to organizing or setting up our own research and development, then we will only become slaves to foreign advanced technology and not the masters of advanced technology. After the war, Japan was able to regain its strength and develop into an economic power of today. A major successful experience was that it actively carried out research and development after importing foreign advanced technology. On the basis of digesting other people's advanced technology, they scaled new heights. In building the zone for economic and technological development now, our purpose is to promote the modernization of our country. Thus, the development zone must attach importance to the research and development of science and technology. Otherwise, the zone for economic and technological development will not generate the energy for propelling economic development at home.

FOREIGN TRADE AND INVESTMENT

GUANGZHOU STEPS UP ECONOMIC REFORM

Guangzhou GUANGZHOU RIBAO in Chinese 31 May 84 p 4

[Article by Guan Qixue [7070 0366 1331]: "We Must Take Larger Strides in the Reform"]

[Text] Not long ago, the State Council decided to open up 14 cities along the coast. This was a major policy decision of the central authorities. In light of the reality of Guangzhou, the leadership of the Guangzhou municipal party committee and municipal people's government tentatively fixed Huangpu Prefecture as a zone for economic and technological development. I feel that the implementation of the open-door policy must be guaranteed by the reform of the system of organization. We must take larger strides in the reform of the economic system. With respect to the region in terms of its economic and technological development, the internal administrative system must be established on the principle of "handling special matters with special methods, handling new matters with new methods and resorting to totally new methods without changing our stand." We should put the focus of the work of the zone for economic and technological development on the implementation of policies, emphasize general plans and macroeconomic control and let the enterprises truly become relatively independent commodity producers and become the economic cells which are full of vitality.

As the zone for economic and technological development was part of the original city, it cannot be developed in an isolated fashion apart from the original city. In order to run well the zone for economic and technological development and bring into fuller play the role of Guangzhou in opening up to the outside world and vitalizing the economy domestically, we must carry out a comprehensive reform of the economic system of the city. According to reports, Guangzhou has already begun to carry out reform. This is a matter which we should be happy about. In order to accelerate the pace of the reform of the system of organization, I believe we must further study and resolve the following issues:

First, we must eradicate the "leftist" influence in the thinking of the leadership at various levels and shake off the yoke of the viewpoint of the natural economy. In the reform of the system of organization, only by unifying ideological understanding can we have unified action. Often, the people who embrace "leftist" thinking and those people who embrace the viewpoint of the

natural economy think the same way. Some comrades embrace both. These people frequently regard the socialist commodity economy as capitalism and hence oppose its development. To unify ideological understanding, it is important to eradicate the remnant "leftist" poison and shake off the yoke of the viewpoint of the natural economy. Otherwise, we cannot begin to talk about the reform of the economic system.

Second, we must expand the power and responsibility of Guangzhou. Recently, at the symposium on the pilot work of carrying out the reform of the economic system in the cities, we summed up an important experience, which was that the various departments of the central authorities as well as the provinces, municipalities and autonomous regions must simplify administration and transfer power downward. This is the key to whether or not we can do a good job of launching a comprehensive reform in the cities. Guangzhou is a large key city. Without the necessary power and responsibility, I really doubt if we can truly implement the party's policies on opening up to the outside world and vitalizing the economy domestically. Presently, economic development in Guangzhou is very seriously hedged in with rules and regulations. For instance, posts and telecommunications as well as communications and transportation are all parts of the urban infrastructure and are the important prerequisites to utilizing foreign capital and importing technology. However, Guangzhou has no power to solve the existing problems. We cannot call this a normal phenomenon.

Through further opening up the 14 cities, Guangzhou's decisionmaking power in foreign economic activities has been expanded. However, the power to manage foreign trade and business has still not been transferred down to the provinces. We can be sure that the contradiction between foreign economic activities and foreign trade will become more acute. This is because the products of the joint ventures and the enterprises with exclusive investment by foreign businessmen are primarily for export. If we do not render the necessary decisionmaking power regarding foreign trade to Guangzhou, then we will make things unfavorable for the utilization of foreign capital and the importation of advanced technology. This shows that in the comprehensive reform of the large cities, the various departments of the central authorities and the province must simplify administration and appropriately transfer power downward.

Third, we must emphasize the reform of the system of management involving personnel, labor and wages as well as education and scientific research. To open up further and establish the region for economic and technological development, we need a large number of specialized skilled personnel. To solve the contradiction between the supply and demand of skilled personnel, we must develop and train these personnel. All this involves the issues of the reform of the system of management in personnel, labor and wages as well as education and scientific research. To obtain the skilled personnel needed by the region for development, we must implement the employment system and contract system. This must be in coordination with the reform of the system of management in personnel and labor of the original city. Otherwise, it will be difficult to solve the problem of skilled personnel for the region for development. The system of personnel management of the education and scientific research units must permit the flow of skilled personnel and encourage specialized skilled personnel to assume concurrent positions in other

places and set up work contract agreements with enterprise (professional) units, thereby developing their skills to the greatest extent and enabling more work for more pay. In this way, we will enable education and scientific research to cater to economic construction and serve economic construction.

Fourth, we must emphasize legislative work in the reform of the economic system. In recent years, with the development of the scope and depth of the reform of the economic system, a large number of trailblazers who were bold in reform appeared. However, many of these comrades had endured tortuous paths and had been given unwarranted charges in the past. These problems could not be solved without the intervention and support of the leadership at higher levels and in some cases even of the provincial and municipal leadership. In light of such difficulties in pushing the reform, what can be done? Thus, I propose that the concerned departments of the central authorities emphasize the legislation involving the reform of the system of organization, render legal protection and support to the reformers and impose penalties on those who suppress and obstruct the reform of the system of organization. Only in this way can we clear the way for the reform of the economic system.

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FOREIGN TRADE AND INVESTMENT

SHEKOU ESTABLISHES EMPLOYMENT SYSTEM

Guangzhou GUANGZHOU RIBAO in Chinese 28 May 84 p 1

[Article by reporter Zhang Yueliang [1728 6460 5328]: "Remove the 'Iron Chair'; 'Not Making Contributions Is Tantamount to Making a Mistake'"]

[Text] Xinhua Dispatch from Shenzhen, 27 May -- Recently, the administrative committee of the Shekou Industrial Zone of the Shenzhen Special Economic Zone handled the procedures of "continuing the employment" or "discontinuing the employment" of 35 managers, deputy managers, assistant managers, office directors and deputy directors of the units under its jurisdiction at the end of the year's contract. Of the 35, 21 cadres were "rehired" and 14 were "dismissed."

The Shekou Industrial Zone undertook a reform of economic administrative cadres by changing from the system of appointment and dismissal to the system of employment. This thoroughly shattered the existing cadre system in which one was hired for life and could only be promoted but not demoted. The former argument that "one could not step down from office as long as one did not engage in corruption and bribery, did not engage in speculation and did not commit mistakes in style of living" did not work anymore. Here, the leading cadres generally took the new viewpoint of "not making contributions is tantamount to making a mistake." Those leading persons who, during their term of employment, were unable to create new situations although given the means to do so would naturally be replaced by new personnel who were able to create new situations.

Since May of last year, the Shekou Industrial Zone had carried out separate organizational reforms in the government units and enterprise units. The 13 companies directly under the jurisdiction of the zone were all changed to independent accounting economic entities which assumed responsibility for their own profits and losses. They implemented the system of responsibility by the managers and set up five functional offices. The leading cadres of the companies and the functional offices were put under the employment system. This basically removed the "iron chair" of lifetime positions.

The concrete methods of the Shekou Industrial Zone in implementing the cadre employment system involved the following: The administrative committee would issue a letter of employment to the leading cadres who were to be employed.

The letter of employment specified the responsibilities, rights and wages during the term of employment. This would be recognized after signatures from both the employed personnel and the responsible person of the administrative committee. Each term of employment would be 1 year. At the end of the term, those who were competent could be rehired or hired to assume more important functions. Those who were not competent could be dismissed. Other work would be arranged for these personnel, or else these personnel could look for jobs themselves inside the industrial zone.

The cadre employment system in the industrial zone was warmly supported by the cadres and workers. The leading cadres who were employed were urged on by an invisible force to make progress vigorously. This brought vitality to the enterprise. In the past year, most of the 13 companies directly under the jurisdiction of the zone scored marked economic results. The gross amount of business and profit for 1983 were 32 percent and 11.2 percent higher than 1982, respectively.

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FOREIGN TRADE AND INVESTMENT

SHANTOU ESTABLISHES DEVELOPMENT COMPANY

Guangzhou YANGCHENG WANBAO in Chinese 21 May 84 p 1

[Article by Huan Zhan [3562 1455], Guo Rong [0948 2837] and Yang Ze [2254 3419]: "Shantou's Longzhu United Development Company Has Been Established"]

[Text] On the 12th of this month, the general company for developing the Shantou Special Economic Zone and the Zhengda International Investment Company, Ltd., jointly established the Longzhu United Development Company of the Shantou Special Zone.

The two parties of the Longzhu United Development Company, Ltd., agreed on the investment of U.S. \$20 million (equivalent to HK\$156 million) to accelerate the building of the Shantou Special Zone. This is a joint venture of the largest scale since the establishment of the Shantou Special Zone. Its business activities will include the following six major projects: land development, the building of all kinds of enterprises and businesses, the importation of all kinds of advanced technology and equipment, the building of commodities storage facilities as well as their complementary facilities, the development of import and export trade and the training of all kinds of skilled personnel. For several days, the two parties conducted concrete talks on jointly running industry and agriculture and rearing aquatic products and livestock breeding as well as building the new overseas Chinese village. Heartening progress has been made accordingly.

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## FOREIGN TRADE AND INVESTMENT

### RAISING OF FOREIGN TRADE RESULTS URGED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 1, 27 Jan 84 pp 17, 22

[Commentator's article: "Raise Overall Economic Results of Foreign Trade"]

[Text] Since the policy of opening China to the world was implemented, considerable results in rapidly developing its foreign trade have been achieved. Judging from the promotion of agricultural and industrial production and the growth of the national economy as a whole, the results obtained are also gratifying. However, viewed from the angle of state finance and the enterprises themselves, the problem of raising economic results is crucial to furthering the current healthy development of foreign trade.

To raise the economic results of foreign trade, energetic efforts are required in many aspects. Regarding imports, with rising prices on the international market, domestic products should also readjust their prices. Problems in this respect can only be resolved gradually after the state has given overall consideration to the matter on the basis of the national economy as a whole. As for exports, serious attention should be given to the quality of products and reduced production costs in the production sector. In the circulation sector, efforts should be made to eliminate competition among operating units in the country and the tendency to lower their selling prices and make purchases in excess of their exports and others such as the slow flow of funds, increased expenses, rising costs, etc. Viewed from foreign trade departments, serious attention should also be paid to the problems of cost accounting and economic results.

It is quite obvious that raising the economic results of foreign trade not only is the business of the foreign trade departments but also requires the pooling of efforts from various quarters. However, as departments supervising imports and exports, foreign trade departments and the enterprises under them that substantively carry on the import-export trade have the unshirkable responsibility of raising the economic results of foreign trade. At the same time, with foreign trade departments strengthening supervision and with enterprises under them strengthening economic accounting and improving management, production enterprises turning out export goods and related units will also be encouraged to raise results. At present, attention should be given to the following problems when striving to raise the economic results of the export trade:

1. Strengthen economic accounting, the central link being the calculation of foreign trade costs in every part of the country according to commodities (including purchase, processing, transport, storage and circulation expenses) and the computation of the cost prices of various categories in commodities on the basis of their export prices.

In planning and making arrangements, the following two preferences are opted for exports: (1) Options are given to those commodities that are low in costs but high in export prices and those that fetch big returns. (2) Greater preference is given to identical commodities for export from low-cost producing areas. As to remote border areas, certain commodities of fine quality which are marketable abroad but fall short of required costs should have their costs lowered within a specified time limit. This will encourage the advanced and prod those lagging behind the move forward. Furthermore, enterprises handling foreign trade can be urged to strengthen their management and make purchases on a selective basis throughout the country. This would also promote and stimulate enterprises and units producing export commodities to lower their costs. Although some commodities which fail to meet specifications may naturally be purchased in smaller quantities or stopped altogether, such pressures may turn into motivating forces. Moreover, as a result of cost accounting, the relative merits or defects of commodities for export emerging from various parts of the country may become so manifest that they can be taken as a basis for working out some sort of export promotion strategy at various localities. This means that stepping up cost accounting regarding exports will not only upgrade the foreign trade program but in a certain sense stimulate China's economic program. We should therefore fully understand the significance of this task, overcoming its difficulties and doing it successfully.

2. Strictly curb the undesirable practices of making purchases at home at inflated prices and selling abroad at cut-rate prices. After strengthening cost accounting and taking over the financial management of various operating units, the economic accounting measure can curb the illicit practices regarding commodities making small returns. However, this does not apply in the case of commodities making big returns and requires administrative control. Economic and trading systems in various areas must make purchases strictly according to the procurement policy and the export goods procurement plan specified by the state. They are not allowed to make transregional purchases at higher prices. Strengthened control should also be imposed on the issuance of export permits while violators should be dealt with strictly.

3. Pay attention to changes in market trends and have a firm grasp of rational selling prices. Leading comrades at all levels of economic and trade departments should attach importance to international market conditions and be familiar with commodities and exchange rate fluctuations. While reasonable priced goods for export are to be sold at good prices, imported commodities purchased at good prices should also be put under price control.

4. Control rational stockpiling and speed up capital flow. Work out a rational proportion between goods in stock and those for export and make rational arrangements for making purchases on the basis of goods in stock.

At present, we are in a very favorable position to raise economic results and accomplish the foreign trade task in every sector. The problems of achieving the economic results of foreign trade have received the concern of the central leadership and various quarters as they have expressed support for the foreign trade program and pledged their efforts to raise the results of foreign trade. With economic accounting strengthened, industrial enterprises and trade promoters now truly work together to keep their books right. Consequently, their relations have become much closer than before. Controversial problems concerning tax reductions and profit transfers which have cropped up over the past years are expected to be solved hereafter. Both foreign trade departments and enterprises have greatly strengthened their concept of paying attention to economic results.

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## FOREIGN TRADE AND INVESTMENT

### PRC'S FOREIGN TRADE DEVELOPMENT, STRATEGY EXAMINED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 1, 27 Jan 84 pp 18-22

[Article by Zhang Peiji [1728 1014 1015]: "Inquiry into China's Foreign Trade Development Strategy"]

[Text] Under the prerequisite of unceasingly increasing economic benefits, striving to triple the total volume of imports and exports over the 1980 base by the end of this century is a strenuous and glorious task. To achieve this imposing goal requiring struggle, we should study and draft a correct strategy for the development of foreign trade. This calls for: first, establish a correct strategy to guide our thinking; second, formulate a scientific import-export strategy; third, provide clear-cut strategic goals; fourth, define specific strategic steps; fifth, draft effective strategic measures.

My preliminary views on the above-mentioned aspects of the problem are given below.

#### I. Strategic Guiding Concept

This concept provides fundamental guarantees for achieving strategic goals.

The underlying principle for building socialist modernization in our country is "maintain independence and keep the initiative in our own hands, achieve rejuvenation by relying on our own efforts." But this guiding principle does not mean self-sufficiency and closing the country to international intercourse. As the CPC Central Committee has pointed out, in undertaking economic construction, we should make use of two types of resource (domestic and foreign resources) and acquire these two skills (organizing domestic reconstruction and developing economic relations with foreign countries). This requires that we increase our ability to achieve rejuvenation by depending on our own efforts and through the development of economic trade with other countries. We should recognize the importance of developing economic trade with other countries from this strategic angle.

Since the PRC was founded, it has developed foreign trade to some extent, thus going a long way toward promoting the building of socialist modernization. However, due to the long existence of "left" mistakes in economic work and interferences from a decade of turmoil, the development of China's foreign

trade has suffered serious setbacks and impact. For a long time the volume of our foreign trade has remained relatively small, trade relations comparatively narrow, trading patterns not flexible enough, the structure of import and export merchandise not entirely reasonable and economic results not great at all.

During the 1950's and 1960's which saw rapid development in the world economy and trade, many countries took advantage of this favorable situation to vigorously promote external trade and domestic economic development. In this period, China achieved certain development in foreign trade, too, occasionally putting emphasis on trading with other countries for what it lacked and regarding foreign trade as a means to striking a balance between surpluses and shortages in the national economy. In terms of the underlying concept, China lacked the strategic perception based on the domestic market but viewing the world as a whole, while making full use of the international market to promote the development of the domestic economy. Without any doubt, the principle of maintaining independence by relying on our own efforts is completely correct and must be firmly upheld. However, if we overlook the appropriate role played by foreign trade, it will also be wrong to set self-reliance against the development of economic relations with other countries. Foreign trade is also a sector for accumulating funds for the state. However, for a long time we have overlooked the economic results of external trade while paying more attention to achieving the foreign exchange goal as a guiding concept.

External trade is an important aspect of our work abroad. In the field of foreign trade, correctly understanding and handling the relationship between politics and economics is an important principle.

At the Third Plenum of 11th CPC Central Committee, implementing an open door policy and the question of vigorously developing economic relations with other countries were raised. In addition, promoting economic work abroad was interpreted as a strategic problem relating to the building of the four modernizations in China. Since then, external trade has made significant advances. In his report to the 12th CPC Congress, Comrade Hu Yaobang explicitly pointed out: "It is our unwavering strategic policy to open up our country to the outside world and to broaden economic and technological exchanges with other countries according to the principles of equality and mutual benefits. We are promoting domestic products on the international market and vigorously expanding external trade." At present and over a fairly long period hereafter, Comrade Hu Yaobang's speech is our guiding concept for developing foreign trade. In order to fully implement this strategic policy, we should be clear about the following major aspects of the guiding concept:

- (1) through foreign trade, promote the development of production, raise the scientific and technological levels and expedite the building of socialist modernization;
- (2) organize in a timely way both imports and exports, regulate domestic markets, vitalize the economy and improve and raise the people's living standards;

(3) pay attention to raising economic results, improving business operations and management and accumulating funds for the state. Under the prerequisite of enhancing economic benefits, develop foreign trade;

(4) implement the foreign policy along with external activities and make energetic efforts to develop economic and trade relations with other countries.

## II. Import-Export Strategy

Judging from developing countries, two import strategies can be used to promote economic development through foreign trade. One is "import substitute," which is largely of an inward nature; the other is "export substitute," which is outward in character.

In the opinion of a fairly large section of Western economists, "export substitute" is a higher export form than "import substitute." They also believe that with the development of the economy the transition to "export substitute" will become inevitable. I am of the opinion that this view requires further study, because when a country adopts its import-export strategies it must proceed from its actual conditions and in the light of its specific conditions. There is no unchanging development strategies suitable for all countries and all different periods.

Although in the past we did not apply the above-mentioned strategies, China has largely adopted the "import substitute" strategy in promoting foreign trade over the past 30 years and more. As far as our country's actual conditions are concerned, this strategy is generally correct. China, a big country with 1 billion in population, has access to relatively abundant natural resources. Being highly self-sufficient in such resources and having a large domestic market, we mainly turn to this market in developing our economy. Since there is no need to adopt the "export substitute" strategy, which is also affected by serious fluctuations on overseas markets, it shows that a big country is considerably different from those with small populations and areas, comparatively poor in natural resources and relatively low in self-sufficiency in such resources. Due to the restrictions imposed by these conditions, some small countries seeking profits for their industrial sectors naturally want to turn to international markets to export their abundant products. Thus their exports take up a larger proportion in the national economy. A large country does not have to do this.

However, we should note that carrying out the "import substitute" program can be quite inadequate chiefly in the following ways: (a) Overstressing the importance of protecting domestic markets may, in fact, result in protecting backward industrial enterprises in the country. This will not be favorable to promoting domestic industrial production or raising technological and management levels, nor increasing the competitiveness of domestic products. (b) Putting emphasis on domestic markets and thus neglecting to make use of foreign markets and resources will inevitably restrict the promotional effects of foreign trade on the national economy. (c) Since exports promote imports, it is easy to make obtaining foreign exchange as the objective and thus overlook the economic results of foreign trade.

In view of the above situation, China should give full play to the superior advantages of its socialist system when drafting an import-export strategy. By retaining the advantages of the "import substitute" and overcoming its drawbacks and by absorbing certain good points of the "export substitute" to avoid its shortcomings, the main thing is to implement the "import substitute" strategy in conjunction with the "export substitute" along these requirements:

(1) Economic construction projects should be based in the country to protect the development of domestic and national industries, generally avoiding importing those things that can be produced and provided in the country.

(2) Vigorous efforts should be made to stimulate the production of those things that have to be imported at present, provided conditions for manufacturing them are economically available in the country hereafter. This should be followed by the utilization of "import substitutes" when conditions are available so that imports may be gradually reduced in a planned way to prevent prolonged dependence on imports.

(3) A rational production policy should be drafted under the unified planning of the state, selectively and in separate regions according to the conditions of different production enterprises and different products. While "import substitutes" apply to those domestic production enterprises which have the potential for developing certain lines of products, it is mainly aimed at producing goods for the domestic market in conjunction with the necessary import control measures. If the demand on the domestic market is not large and if foreign production enterprises have the potential for developing certain lines of products, then "export substitutes" will apply. This is primarily aimed at making products available to the international market in conjunction with moves for encouraging exports.

(4) Make full use of overseas resources and foreign markets to boost the production of export commodities and in the service of developing the export trade. The state should appropriate a portion of foreign exchange funds to bolster exports, apart from energetically making use of foreign capital, importing technological equipment and promoting the production of export goods.

### III. Strategic Goals

According to present plans, our strategic goal is to strive to triple total export volume by the end of this century, that is, in the region of \$160 billion, with the prerequisite of making unceasing efforts to increase economic results in foreign trade.

As to this goal, I am of the opinion that the following points should be clearly understood:

(a) this indicator refers to visible trade, namely, the import and export volumes of commodities;

(b) it should be calculated on the basis of nonvariable prices, that is, the constant prices ruling in 1980;

(c) avoid limiting the strategic goal to quantitative indices but strive to increase economic results and fulfill other requirements.

According to this reckoning, there is a possibility of achieving the above-mentioned strategic goal, mainly because:

(1) The rate of increase for the total import and export volumes will hereafter be lower than the previous 30 years. Calculating on the basis of constant prices, China's import and export volumes from 1950 to 1980 rose 3.5 times greater than before, generally doubling once every 8 and 1/2 years and averaging a rise of 8.6 percent each year, greater than the 7.5 percent or tripling that is required hereafter.

(2) The increase in foreign trade is often greater than that of the total production value of both industry and agriculture. If the average annual increase of the total production value of industry and agriculture in our country is hereafter set at 7.2 percent, then it will be possible to achieve a slightly higher rate of increase in foreign trade than that of the total production value of industry and agriculture combined.

(3) Since China's present total export volume comprises only 1 percent of the total world export volume, the potential for expanding exports is very great.

However, this possibility is only one aspect of the problem, always bearing in mind the problems we face at home and abroad that will affect the development of China's foreign trade at present and in the future. Major factors are:

#### 1. Outside China:

(1) Since the 1980's the capitalist world has encountered serious economic crises such as declining industrial production and shrinking world trade. Although the economic situation in the West has begun to resurge, the trend shows a lack of balance, with economic growth moving ahead at a slow pace. In the first half of the 1980's the annual growth rate of world export volume is expected to be very low, with prospects of rising slightly in the second half of the decade. In all, the growth rate during the 1980's will be considerably lower than that in the 1960's and 1970's. This adversely unfavorable economic trend will affect China's export trade, thus presenting formidable problems in accomplishing the export task.

(2) In recent years the inflationary pressure of major capitalist countries has greatly eased, precipitating the weakening of the pricing factor of world trade growth. On the other hand, the relatively high exchange rate of the American dollar will affect the growth of world trade transactions which are calculated in terms of the U.S. dollar.

(3) As changes in the world oil supply situation have reached a turning point, the glut of petroleum on the international market has forced down oil prices. This will affect the export of China's crude oil and finished products.

(4) The protectionist trend in world trade has prevailed, particularly in the form of increasingly tighter import restrictions imposed by various countries on textile and finished products. China's light textile exports will more or less be affected.

## 2. In China:

(1) With the restructuring of the domestic economic system currently in progress, an overall reform will be undertaken during the Seventh 5-Year Plan period. Many problems that exist in the system itself are restraining the growth of foreign trade.

(2) To increase the economic results of foreign trade, it will soon be readjusted.

(3) Before greater production development is achieved, it will be difficult to change the structure of export commodities.

(4) Selling our products abroad and other related work have not kept pace with the requirements of the developing trends.

In a nutshell, it is possible to achieve the above-mentioned goal by the end of this century. However, many practical problems that exist require further and serious investigation and study, such as outlining specific plans regarding the structuring of import and export commodities, making arrangements for different countries and territories, planning export production enterprises, etc. This will establish the strategic goal on a firm and reliable basis.

## IV. Strategic Steps

In the first place, rational arrangements should be made for the growth rate of the two 10-year periods. While the preceding decade laid the foundation for the national economy, it also completed preparations for the steady growth of foreign trade. The growth rate of the export trade during this period should be correspondingly lower than that during the second decade, concentrating mainly on upgrading the quality of existing export commodities and their structures as a means of continuing to develop the strong points of traditional agricultural and sideline products, as well as indigenous, special and light textile goods. The second decade which marks the revival of the national economy will pave the way for the accelerated growth of export commodities in the industrial sector, particularly electric motors and appliances, after preparations for boosting foreign trade made in the preceding decade. As a result, the growth rate of the export trade should be faster.

Second, the proportion relating to revenue and expenditure between import and export, on the one hand, and foreign trade, on the other, should be appropriately maintained.

At present, China is engaged in restructuring its national economy. With key construction projects and restructuring of enterprises being unfolded by stages, preparations should be made for economic revival purposes during the Seventh 5-Year Plan period and the following decade. As the state is in urgent need of importing advanced technology, key equipment and important materials, conditions on the international market at this period are also favorable to such imports. Therefore, in the preceding decade we should make energetic efforts to organize imports successfully, keeping the volume of imports greater than that of exports at certain periods and permitting certain adverse balances in foreign trade. The extent of such balance of payments should be determined by China's revenue from nontrade sources at a certain period and by the extent of utilizing foreign capital.

Judging from the experiences gained by a number of industrially developed and developing countries, for a prolonged period they maintained an unfavorable balance in their foreign trade transactions in the initial stage of economic construction. It is not dreadful for a country to have an adverse trade balance within certain limits. The problem is to prevent huge imports of nonproductive consumer goods or to avoid bringing in relatively massive items that cannot be put into production even after a protracted period nor contribute significantly to the domestic economy. As a result, foreign capital has to be used to fill up a bottomless hole and this is most dangerous.

As China's economic strength has greatly consolidated in the latter decade, its export capability has increased significantly. With its exports expected to exceed its imports, an adverse trade balance may gradually be turned into a favorable one, with the possibility of repaying by stages all the foreign debts accumulated in the preceding decade.

In the last 2 years, China's foreign trade shows a favorable balance. With increased revenues derived from nontrade sources, such as overseas remittances, tourism, transportation, services, etc, plus a further improvement of foreign exchange income and expenditure as a whole through the introduction of foreign capital, both funds and foreign exchange reserves will reach a new level. Generally speaking, foreign exchange earnings may produce a favorable balance to reflect the fine payments situation. However, we should note that China as a developing country requires funds to build and modernize the nation. It is abnormal and will not benefit the country if there is a favorable balance in foreign exchange, particularly in foreign trade. This means that part of the material and manpower resources are left to other countries for their use and not for China itself. Consequently, this will hardly contribute to expanded production. One way to change an excessive surplus is to increase imports, not by curbing exports. In particular, imports such as key construction projects required by the state as well as advanced technology and priority equipment should be imported in greater quantities to speed up economic development.

## V. Strategic Measures

- (1) Reform and promote production, planning, taxation, financial and pricing systems related to foreign trade so as to stimulate the development of foreign trade.

Practice shows that to achieve greater development of foreign trade, the system itself should be reformed. However, restructuring the system alone is far from enough. All activities involving foreign trade are closely related to domestic production, planning, taxation, financial and pricing systems. Therefore, under the prerequisite of conforming to the overall restructuring of the economic system, we should further study and reform those systems and policies that are related to foreign trade.

(2) Vigorously boost and promote the production of export commodities, striving to turn out products of greater variety, fine quality and novel design.

To promote foreign trade, exporting is the base. The key to this lies in developing production and organizing sources supplying readily marketable export commodities. In the preceding decade, the state should vigorously support the production of export commodities, appropriating funds (including making use of foreign capital) in a planned and selective way, importing some priority equipment and technology and expeditiously restructuring certain enterprises that produce export items. In particular, enterprises under economic and trade departments should speed up their technical transformation according to export requirements. They should also raise the export ratio between finished products and processed goods and upgrade the quality of export products, striving to turn out products of greater variety, fine quality and novel design.

In view of the present excellent prospects in agricultural production, energetically organizing the export of marketable agricultural and sideline products, indigenous and special products is fraught with immense potentialities. For some time, China's priority exports have been comprised of light textile goods, handicrafts and industrial food products. But in the fiercely competitive international market, vigorous efforts are required to develop new products with novel patterns and variety before such products can conform to the needs of the world market. In exporting petroleum products and other resources, we should continue to maintain our advantages. In the long run, we should energetically support and promote the production and export of engines and electric appliances. This is where we can hope to expand our exports.

In the course of promoting the production of export commodities, we should make vigorous efforts to focus on the export of "hot-selling" commodities. At present, we should study the trend of a "new industrial revolution" in the world and changes in the structures of production enterprises. In conjunction with China's actual conditions, we should study the development trend of production sectors and the configurations of import and export commodities. After selecting a number of "hot-selling" export commodities, we must organize relevant departments to tackle the job seriously for a couple of years until we have achieved results. We should catch up with the guiding concept to organize exports and avoid trailing behind international market trends.

(3) Strengthen overseas marketing networks and promote a diversified market.

To pave the way for the introduction of Chinese products into the international market, it is necessary to change current marketing practices. Apart from holding trade fairs in the country on both a large and small scale and continuing to employ mail order transactions methods, sales outlets should be set up abroad. At present, emphasis should be placed on the development of business relationships with foreign corporations or multinational companies, extending export transactions, setting up trading centers at key areas abroad, establishing wholly owned firms and forming joint ventures with suitable partners. In short, the forms and methods of promoting sales should be flexible and manifold.

As to marketing areas, the present trend of overconcentrating on the market should be changed into one of stressing diversification as an important means of restructuring the market. At the same time, with a view to dealing with different countries and territories, efforts should be made to promote barter trade, three-cornered trade, multilateral trade, compensation trade, etc., using imports to promote exports and so forth.

(4) Strengthen investigation and study and set up business information networks at home and abroad so that media distribution of news can be handled successfully.

With fierce competition currently prevailing in the world market and trade protectionism gaining momentum, the monetary market is unsettling while the prices on the commodity market keep changing. In the face of such a situation, to sell domestic products at good prices on the international market, bring in advanced technology and advanced equipment and organize exports successfully, we must understand in a timely way market conditions at home and abroad, advances in science and technology and changes in pricing trends. At present, we are fairly weak in investigation and study and in transmitting business information, lagging far behind in telex transmission equipment. Consequently, the channels and methods of gathering information at its source are rather narrow. This has resulted in low working efficiency which is far behind in conforming to the requirements of foreign trade development. Therefore, support involving financial, material and manpower resources should be given so that establishment of business information networks at home and abroad can be vigorously stepped up, truly achieving prompt transmission of news and messages.

(5) Energetically promote exports through external economic and trade programs.

Exporting commodities and giving external aid are closely related with contracting for engineering projects, making use of foreign capital and importing technology, etc. If these are properly coordinated, they can promote each other. For example, giving external aid and contracting for engineering projects should be integrated with plans for exporting commodities, while making use of foreign capital and importing technology should also be incorporated into considerations such as speeding up the technical

transformation of enterprises related to export trade, upgrading the quality of export goods and increasing the variety and categories of such commodities.

(6) Strengthen the economic accounting of enterprises and increase the economic results of foreign trade. Tripling the volume of import and export trade is put forward under the prerequisite of making unceasing efforts to raise economic results. Therefore, the strategic goal we should pursue hereafter is not one of expanding the volume of the import-export trade but one of vigorously improving operations and management so that more funds can be accumulated for the state. Hence, the quality of foreign trade and enterprises should be upgraded so that the responsibility, authority and benefits between foreign trade departments and enterprises can be integrated. In addition, regulations and systems should also be perfected and improved while economic accounting from various aspects should be strengthened to completely change the practice of "eating from the same big pot." This important measure is indispensable in raising the micro- and macro-economic results of relevant departments.

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CSO: 4006/437

FOREIGN TRADE AND INVESTMENT

GOVERNOR HOLDS BANQUET FOR AUSTRALIAN EXPERTS

HK120850 Xining Qinghai Provincial Service in Mandarin 1100 GMT 11 Jul 84

[Text] Last night, on behalf of the provincial people's government, Governor Huang Jingbo held a banquet in the Shengli Park Guest House for the Australian experts who successfully completed the building of the (Hongdong) demonstration livestock farm and survey work in its vicinity. Vice Governor Gabulong and responsible comrades of provincial departments attended the banquet to help entertain the guests.

Governor Huang Jingbo spoke at the banquet. On behalf of the Qinghai People's Government and people of all nationalities throughout the province, he extended thanks to the investigation group with Mr (He Li) as the head. He also said: The building of the (Hongdong) demonstration livestock farm is the beginning of economic cooperation between the Qinghai Provincial and West Australian governments. As time passes, Qinghai Province will develop more extensively in the sphere of economic cooperation with the West Australian Government.

In his speech, head of the investigation group, Mr (He Li), said that in the course of investigation for a short period of over 10 days, he and his colleagues deeply felt the real friendship of the Qinghai Provincial People's Government and people in Qinghai and that he saw Qinghai Province being open to the outside world and vigorously developing its economy. He wholeheartedly wished Qinghai prosperity and people's livelihood happiness!

On behalf of the investigation group, Mr (He Li) presented to juveniles and children in Qinghai Province books on Australian aborigines. Governor Huang Jingbo presented [words indistinct] to the Australian experts.

During their stay in Xining, the Australian experts also visited the Provincial Agricultural Science Institute, the Animal Husbandry Department, and other units. The Australian experts were scheduled to leave Xining today for home via Beijing.

CSO: 4006/699

## FOREIGN TRADE AND INVESTMENT

### HEBEI GOVERNOR ANNOUNCES COOPERATION PROJECTS

OW091742 Beijing XINHUA in English 1441 GMT 9 Aug 84

[Text] Beijing, 9 August (XINHUA)--Governor of Hebei Province Zhang Shuguang announced 60 items for international economic and technical cooperation put forward by the province at a meeting here today.

The projects involve the building materials, pharmaceuticals, textiles, electronics, machine-building, chemical, light and food-processing industries. Total investment is estimated at more than U.S. \$100 million.

Cooperation will take the forms of credit and loans, joint ventures, exclusive foreign investment enterprises, co-production and cooperation enterprises, compensation trade, processing with supplied materials, assembling with supplied parts, technology transfer and leasing.

The second and third groups of projects for international cooperation will soon be published, he said.

Hebei Province will hold an international meeting for business talks on these items from 22 to 31 October this year, and people from industrial, commercial and banking circles of foreign countries and the Hong Kong and Macao regions are welcome, the governor said.

Hebei Province is located in the northern part of the north China plain around Beijing and Tianjin cities. It has good communications facilities, is rich in mineral and marine resources and is fairly developed in industry.

Since 1979 the province has conducted cooperation in various forms with businessmen from foreign countries and regions, and 140 items of technology have been imported. These items involve the textile, electronics and other light industries. At the same time, the province has also undertaken major projects abroad such as highway building and water conservancy projects.

CSO: 4006/697

## FOREIGN TRADE AND INVESTMENT

### SHANDONG FOREIGN TRADE PROGRESS DETAILED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 2, 27 Feb 84 pp 40-41

[Article by Yu Ziping [0060 6327 1627], director of the Shandong Foreign Economic Relations and Trade Office: "Stress Economic Results, Emphasize Trade Reputation"]

[Text] The pace of our province's foreign trade development has further speeded up since the Third Plenum of the 11th CPC Central Committee, under the guidance of the policy to open to the outside world. In the 4 years from 1978 to 1982, the export trade figure increased 100-fold, at an average annual increase rate of about 19 percent. Although there was a recession in the international market in 1983, exports nonetheless reached about \$1.7 billion, a more than 8 percent increase over 1982. The relatively rapid development of our province's foreign economic trade in the past few years is due mainly to a series of policies to encourage its development adopted by the party and the state. Our province's industrial and agricultural production has further developed along with readjustment of the state economy, providing increasingly plentiful supplies of goods for export. As for foreign economic trade departments, we have consistently upheld the principle of "equality and mutual benefit, and supplying each other's needs." To continuously solidify and develop co-operative relations between our province and traders from all friendly areas of the world, we stress economic results, emphasize trade reputations and work hard to continuously promote the development of our economic trade. The main characteristics of Shandong's foreign trade at present are:

1. To set a rather good foundation for expanding exports, we insist on quality first, giving full play to our province's superiority, and cultivating a group of hot-selling backbone goods.

We utilize various channels and work hard at developing export commodity production to allow for stable and reliable supplies of exports. With state approval, we set up composite export commodity production bases in Yantai, Weifang, Linyi, Heze, Qingdao and other prefectures and cities, and also 22 individual export agricultural and sideline product production bases in 62 counties and cities provincewide that achieved notable economic results, emphasizing the development of meat rabbits, beef cattle, rabbit wool, kid leather, garlic, flue-cured tobacco, asparagus, red dates, apples, pears and other export commodities. Our province is superior in the export of industrial

products. Over 1,200 commodity-producing exporters provincewide have implemented over 1,000 technological transformation projects, accelerating the advance of technology and the move to a new generation of production by utilizing foreign economic cooperation, foreign investment, foreign exchange loans, export industrial product loans and other methods. At present, the backbone commodities exported by our province at over \$10 million in annual foreign exchange earnings include crude oil, drawn work, shelled peanuts, peanut products, frozen prawns, pork, chicken and rabbit, vermicelli, beer, cotton cloth, cotton kit goods, clothing, silks and satins, flue-cured tobacco, gunnysacking, traditional Chinese medicines, straw goods, reed and willow goods, ceramics, locks, graphite, carpets, furs, kid leather, rabbit wool, prepared Chinese and Western medicines, mechanical tools, etc. These commodities comprise over 80 percent of our province's annual export figure, supplies of them are stable, their quality is constantly being improved and they have become important pillars for expanding our exports.

Quality is the life of products. Our consistent principle has been "quality before quantity." We have consistently upheld the guiding policy of quality first in developing production and cultivating supplies of goods, and continuously put first the improvement of product quality. Because many commodities enjoy rather high reputations in the international market, some have become famous brands of state exports. For example, Qingdao Beer is now praised by foreign consumers as a beverage with an international taste. It is sold not only in Hong Kong, Macao and southeast Asia, but has been welcomed by consumers in the United States, Canada and many countries in Western Europe. The sales market is constantly expanding and export supplies cannot meet the demand. Canned asparagus is one of our products newly developed in recent years. Scientific management and advanced technology are used in its growing, harvesting and processing. The quality is outstanding, exports are in great demand and account for two-thirds of the amount exported nationwide. Superior export products typical of our province that have been praised by foreign traders and consumers include "San Huan Brand" copper and iron locks, drawwork, straw and willow goods, large Shandong peanuts, Lungkow vermicelli, Leling golden and red dates, Sanbian wine, beef cattle, frozen rabbit, etc.

2. We have promoted economic development and expansion of export trade on the basis of equality and mutual benefit, and further expanded extensive cooperation with foreign industrialists, businessmen and traders in the production and trade areas. In recent years we have achieved satisfying results in various forms of economic trade cooperation and extensively developed compensatory trade, processing imported materials, assembling imported parts, cooperative production, cooperation ventures and other kinds of business with several hundred firms in Hong Kong and Macao, Japan, the FRG, England, the United States, Italy, France, Australia, Switzerland, Denmark and other countries and regions involving light industry, textiles, chemicals, machinery, tanning, electronics, mining and other trades and departments. For example, advanced technology and equipment have been imported, production expanded and quality improved by utilizing different forms of cooperation for wood processing, oil refining, graphite, talc, machine tool, knit underclothing, clothing, finespun poly-cotton, poplin printing and dyeing, coarse cotton yarn, carbonic

acid pellets and other projects. All have been praised by foreign friends in the economic trade world.

3. In recent years, our province's economic trade contacts with the five continents of the world have continuously expanded, and cooperative relations have been continuously strengthened and developed. Right now, over 150 countries and regions of the world and nearly 20,000 clients have good economic trade relations with us. More than 10,000 people come to our ports annually to engage in friendly visits, trade negotiations and to inquire about economic trade.

Each year we send various types of small economic trade groups all over the world to hold display and sales meetings and exhibitions, to study market conditions and to inquire about channels for and means of expanding economic trade cooperation with various countries and regions. We value the continuous strengthening of old friendships and working hard at making new ones in reciprocal economic trade contacts on the basis of mutual benefit, the bold adoption of various flexible international trade practices, and hard work to support and coordinate them. This has had an important and active role in promoting the development of our foreign economic trade to expand sales, open markets, and have highly effective cooperation and coordination to expand each others' business contacts.

In sum, our foreign trade now has a good foundation. But in the long run, we must strive for considerable development under the premise of continuously improving economic results, and speed up the pace, especially in terms of the state economic development strategy for our province and the strategic goal of making foreign economic trade self-supporting. The development of such trade has entirely broad prospects, as our province has ample supplies of goods and industry and agriculture have a definite foundation. The key points for developing foreign economic trade hereafter are:

1. We must bring our province's superiority into full play in terms of supplies and industrial and agricultural production, greatly develop the processing of imported materials, actively use foreign investment, import advanced and suitable technology, accelerate the technological transformation of commodity-producing export enterprises, strengthen the establishment of production bases for exported agricultural and sideline products, continuously improve our adaptability and competitiveness in the international market, be geared to the needs of that market, compete in it and work hard at improving the proportion of exports.

2. On the basis of continuously improving economic results, we must unremittingly persevere in improving the quality of exports and expanding exports, achieving a victory in quality, especially in terms of manufactured goods in the light, textile and other industries, move to the next generation as soon as possible, increase product varieties, colors and designs, and improve packaging and decorations.

3. We must tap new sources and adopt various flexible and diverse trade methods, strengthen cooperation with traders throughout the world, increase

the variety of products, expand the scope of business, endeavor to enliven trade and expand business by processing imported and client goods, cooperative production, cooperative ventures, compensatory trade, etc. Our province now has over 18,000 industrial enterprises, an abundant labor force and a suitable technological base for the development of enterprises that the state is actively encouraging. In this area, we look forward to extensive cooperation with friendly economic traders in various countries and regions of the world.

4. In response to the call for ever-expanding business, we must quickly set up the basic facilities for foreign economic trade. Our province's foreign trade transport will soon be considerably improved; the state is now constructing a port at Shijiusuo that can accommodate 10,000-ton and larger cargo steamers and is also building a complementary Yanzhou-Shijiusuo railway. In the near future, Qingdao and Yantai harbors will be transformed and expanded. At the same time, our province's locally-run fleet is constantly expanding. We will open additional shipping lines besides the present ones to Japan, Hong Kong and Macao. In the near future, our transport capacity will expand to over 100,000 tons. To meet the demands of the reform in transport, we are planning to construct new full container transport wharves and liquid chemical product wharves.

5. We must coordinate imports of technology and equipment and expand local importers' business. To make imports even better serve industrial and agricultural production, promote the advancement of technology and spur on the expansion of exports, we must strengthen centralized and unified management, progressively centralize and unify business, and strengthen imports and exports as well as technology and trade.

6. We must further expand the scope of foreign economic trade activities and develop cooperative trade relations with various friendly countries and regions. In response to the call for developing business, we must strive to send resident offices and personnel to the world's major trade centers and directly strengthen our relations with friends in the trading world. At the same time, we sincerely welcome economic trade friends from various countries and regions of the world to develop such cooperation and work together with us on this.

12615  
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## FOREIGN TRADE AND INVESTMENT

### PATENT LAW DEVELOPMENTS OUTLINED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 2, 27 Feb 84 p 7

[Article by Gu Xiaoli [7357 2556 5461]: "Developments in Our Country's Patent Work"]

[Text] In August, 1983, the Patent Bureau of China convened a patent work forum in Beijing, attended by 66 representatives of 19 provinces, municipalities and departments. The forum conveyed the spirit of the State Council, exchanged experience regarding preparations for patent work and fully discussed questions regarding setting up a patent work framework. The conference considered questions regarding setting up a patent work framework. The conference considered establishing a document service center with a rather complete collection at the Patent Bureau of China. At the same time, it is appropriate that four types of branch centers be set up separately in various provinces, cities and departments according to needs and possibilities. There is a need to translate foreign patent documents into Chinese, implementing the "Draft Plan for Retrieving Patent Document Publications" as soon as possible. Seeing that the patent law is about to be promulgated, every level of leadership should study, understand and prepare patent agencies.

Since the August, 1983 patent work forum, preparations for patent agencies have progressed rather quickly in every province and municipality. Shaanxi Province has set up a patent service center for inventions. The People's Government of Shandong Province is preparing a patent document service center and patent agencies. It has already sanctioned the installation of the latter and is preparing to open. In November, 1983, it also convened a provincewide patent work forum. The Guangxi Provincial People's Government recently sanctioned a leading group to prepare the province's patent work, composed of the province's economic commission, foreign trade bureau, judiciary, bureau of higher education, provincial Science Commission, provincial academy of sciences and the Guangzhou Science Commission. They also set up a patent office specifically responsible for patent matters and are preparing to convene a patent preparatory conference. The Hunan Provincial Government has sanctioned the establishment of a provincial patent service center. Jiangsu, Yunnan, Tianjin and other provinces and municipalities decided to set up patent agencies. The patent agencies of Beijing, Anwei, Liaoning and other provinces and municipalities are being actively prepared. The Patent Bureau

of China has set up charge d'affaires offices in Shenyang, Jinan and Changsha as Patent Bureau agencies directly under the bureau.

Headquarters of the Ministries of Railways, Astronautics Industry, Education and Petroleum Industry have formally set up agencies to manage patent work. Other departments preparing or deliberating doing the same include: the Ministries of Machine-Building Industry, Communications, Coal Industry, Metallurgical Industry and Nuclear Industry. The Ministry of Machine-Building Industry recently held a conference that clarified and arranged patent service work. The Ministry of Education sought a group of personnel in higher education nationwide to train as candidates for the first group of patent agents. The Ministry of Nuclear Industry recently issued a circular requesting that all levels of its leadership highly regard and understand patent work, stress sorting out and reporting inventions, and earnestly prepare to implement the patent system. In coordination with implementing the patent system, the Ministry of Justice is preparing to train a specialized work force of attorneys as soon as possible and has begun preliminary work on it.

In order to promote and popularize patent understanding and cultivate a specialized patent work force, the Patent Bureau of China and many provinces, municipalities and departments have held various types of patent training courses. According to statistics, since August of last year, 15 patent courses have been held nationwide, training nearly 2,000 people. Yunna, Shandong, Jiangsu and other provinces have convened 1,000-person conferences to introduce patents. Among those trained were personnel in charge of patent work in various units, including many leading cadres at various levels. The most recent phase of patent courses has had rather good results in paying attention to strengthening systematicness and directness based on a summary of the previous phase's experience; the teaching has been enriched with the spirit of the Standing Committee of the State Council's conference and the patent work forum.

The ZHUANLI WENXIAN TONGBAO [PATENT DOCUMENT JOURNAL] has expanded publication. Via abstracts and subject groupings, it reports original patent documents from patent organizations and patent cooperative treaty organizations in 15 countries, including the United States, England, and FRG, Japan and Europe, and publishes them in Chinese as volumes, based on the 118 general categories for technology in the third printing of the International Patent Classification Table and our country's routine classification. In October of last year, a patent document journal editing and publishing coordination conference was held in Beijing by the Patent Bureau of China. Following discussions, units concerned in Shanghai, Tianjin, Liaoning, Shaanxi, Hubei, Hunan, Shandong, Wenzhou, Jilin, Guangdong and elsewhere undertook the editing and publishing of 15 volumes of the ZHUANLI WENXIAN TONGBAO. Added to the volumes assumed by the bureau itself, this year nearly 30 volumes of "Computers," "Information Storage," "Metallurgy," "Textiles" and "Electronics Technology" may be published, completing two-thirds of the "Draft Plan for Retrieving Patent Document Publications."

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## FOREIGN TRADE AND INVESTMENT

### FOREIGN TRADE LOSSES, ECONOMIC RESULTS ANALYZED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 2, 27 Feb 84 pp 9-12

[Article by Wang Shaoxi [3769 4801 3556]: "A Discussion of the Relationships Between Foreign Trade Pricing, Profits and Losses, and Economic Results"]

[Text] Foreign trade pricing is one of the basic problems in our foreign trade. It involves two markets, and is influenced by the law of value whose effects differ internationally and domestically. Any change in foreign trade pricing can directly affect profits and losses in foreign trade. Moreover, foreign trade pricing, and profits and losses, reflect the economic results of foreign trade via the pattern of value. The three are intimately connected, existing in an intricate and complex relationship. An analysis of their relationship is truly of practical significance toward increasing our knowledge, correctly understanding foreign trade pricing and improving foreign trade and economic results.

#### The Different Effects of the Law of Value in International and Domestic Markets

It is generally supposed that foreign trade pricing is nothing but the prices of imported and exported commodities. Broadly speaking, foreign trade involves both the domestic and international markets, is related to foreign trade pricing, and should include prices of export and import commodities. This is the foreign aspect of foreign trade pricing. The domestic aspect of it is the administered pricing of imported commodities and the purchase prices of exported commodities. Recently, there are a few production enterprises who have received the approval of the relevant departments to directly manage exports. These self-managing export enterprises have no export commodity purchase pricing problems but only export commodity cost problems. There are several units directly utilizing import commodities who have received the approval of the relevant departments to independently manage needed goods and materials. These units have no problems of administered prices for imported commodities but only the problem of calculating the RMB price of imported goods and materials according to the methods for settling trade accounts in foreign exchange. When we study problems of the effect of the law of value in foreign trade, we must also study its effect in the world market and its influence on the prices of our import and export commodities. We must also study the effect of the law of value in our domestic market and its influence on the purchase prices of export commodities and the administered prices of imported goods.

Commodity prices are based on commodity value, and are the monetary expression of commodity value. Within a country, the value of a commodity is determined by the worktime needed by society for its production. However in the world market, commodities are measured according to international value, which in turn are determined by the worktime needed internationally to produce the particular commodity. In this way, for the same type of commodity, there are two fundamentally different measures of value, domestic value and international value. Domestic commodity pricing is based on domestic value; but when commodities are in international exchange, it follows that international value is the basis. Therefore, in our foreign trade pricing, prices of import and export commodities are based on international value, and, generally speaking, export commodity purchase prices and import commodity administered prices are based on domestic value.

The law of value creates effects spontaneously on the world market. In line with competition and changes in supply and demand relations, international commodity prices fluctuate up and down centered upon the commodity's international value, thereby allocating and influencing the proportion of production materials and labor power offered on the international market by each department. The law of value obeys the fundamental economic laws of socialism and the planned state economy's law of proportionate development in our socialist domestic market. Its effect on the marketed proportion of spontaneously allocated production materials and labor power is greatly limited. Our socialist domestic market's commodity prices (including export commodity procurement prices and import commodity administered prices), are mainly planned prices determined on the basis of party policies and the needs of economic development. This kind of pricing has two basic characteristics. On the one hand, when the state determines commodity prices, it must adhere to the objective demands of the law of value, consciously utilizing the law of value, based on the value of commodities. Therefore, planned prices still use calculations of commodity value, and are still categories of value and the monetary expression of commodity value. On the other hand, planned prices are also a category of the socialist planned economy, and are one of the socialist state planning levers for guiding the country's economic development. That is to say, socialist commodity pricing is not merely the monetary expression of commodity value. It must obey the party's political and economic tasks of a certain period and give expression to the party's lines, principles and policies, appropriately considering the market's supply and demand situation at different periods. The implementation of planned pricing inevitably makes some commodity prices higher than commodity values (e.g., tobacco, liquor, certain light industrial products, etc.), and some commodity prices lower than commodity values (e.g., grain, cotton, oil, meat, eggs, etc.), giving expression to the party's policies. This is a result of the conscious use of the law of value under socialism. This kind of situation reflects the different effects of the law of value in our socialist domestic market and in the international market.

Several experiments in price reform have been carried out in pace with the progressive initiation of reforms in our economic management system since the Third Plenum of the 11th CPC Central Committee. The most important have been readjustments of a portion of industrial and agricultural commodity prices,

including an increase in agricultural product purchase prices; raised producer prices for coal, coke, iron ore, pig iron, some rolled steel, cement, lumber, etc.; raised retail prices for certain nonstaple foodstuffs, tobacco and liquor; and lowered producer prices for some machinery and electrical products. Implementing the principle of giving priority to planned pricing and making free pricing supplementary has broken through the state's unified price-setting method of administering prices. As a result, besides planned prices, there are many types of prices, such as fluctuating prices, negotiated prices, industrial and commercial enterprise consultative prices, country fair trade prices, etc. These forms of free pricing are a spontaneous effect of our use of the law of value. They are experiments to spur on the development of production, regulate market supply and demand, and promote the rationalization of economic structure; they are a test of the spontaneously generated effects of the law of value within a certain permissible range under the conditions of socialism.

Our planned pricing and free pricing will inevitably influence the domestic pricing of imported and exported commodities, and will inevitably complicate procurement pricing of export goods and domestic pricing of imported commodities. However, this situation does not alter the fundamentally stable features of our commodity pricing.

Our import and export commodity pricing is subject to the restrictions of the spontaneous effects of the law of value in the international market, and in accordance with price determination in the international market, must follow the fluctuations of international market prices, at times rising and at times falling. As a result, at different periods import and export commodities of the same quantity and quality often have great differences in the foreign exchange earnings and payments situation due to price changes. But the domestic pricing for these goods under the conditions of a consciously utilized law of value is set in accordance with domestic commodities of the same type and prices are basically stable. In this way, there is the problem of the relationship between a basically stable domestic price and a fluctuating international market price in foreign trade pricing. In order to ensure the independence and self-determination of our socialist economy, and guard against the negative influence of and invasion by capitalism's cyclical economic crises in our socialist construction, and to implement smoothly the state economic plan, we have determined that a policy of separating domestic pricing and international pricing is absolutely necessary. However, implementing this policy may produce several subsidiary effects unbeneficial to economic development. It may cause our production enterprises to lack the pressure of foreign competition which would be unbeneficial to speedily raising labor productivity, improving enterprise management, improving the quality and varieties, designs and colors of products, thereby adversely affecting the scale and speed of our economic development.

In price reform right now, how to improve the use of the law of value in its different domestic and international effects with the premise that international and domestic market prices are fundamentally divergent, and properly relating these two kinds of pricing thereby benefiting the development of the

socialist economy, is a question for study of a great significance in theory and practice awaiting thorough investigation.

### The Relationship Between Foreign Trade Pricing and Profits and Losses in Foreign Trade

The differing international and domestic effects of the law of value, along with other factors, determine the complexity of the problem between our foreign trade pricing and benefits and losses in foreign trade. On the surface, any change in foreign trade pricing will directly affect changes in foreign trade profits and losses, and every factor affecting profits and losses in foreign trade must be influenced by the effects of foreign trade pricing. However, in reality it is much more complicated. This is because profits and losses in foreign trade depend on many kinds of complex factors. Factors influencing profits and losses in foreign trade can be generally divided into five categories in accordance with their different natures.

1. Policy Factors. This refers to our national distinctiveness, regional policies, domestic pricing policies, tax revenue policies, etc, that influence profits and losses in foreign trade. In regard to pricing policies, our policy of separating international and domestic pricing, and the policy of fixing domestic prices of imported and exported commodities according to the prices of the same kind of domestic products are absolutely necessary. However, they are very detrimental to profits and losses in foreign trade. Capitalism's worldwide price inflation is a regular phenomenon, and from a long-term view, international commodity prices are on a constant upward trend. For the past 10 years, the prices of our imported commodities have risen and increased, while orders for goods allocated for domestic use for foreign trade departments and the prices for departments using the goods have not changed in the past few years, or the proportion of increase is very small. As for export commodities in the past few years, due to the changes produced by domestic pricing policies, besides planned prices, many forms of free pricing exist, making export commodity purchase prices more differentiated, complicated, and in general, higher in price. To a great extent this cancels out or even makes losses of the profits which should have gone to foreign trade departments due to the rise in prices in the international market.

2. Structural Factors. This refers to changes in the structure of important export commodities which influence profits and losses in foreign trade. For a long time past, whenever the state arranged its plan for import and export commodities, the main concern was the form of goods needed and how to fully utilize the law of value, in order to determine even better our structure of imports and exports. But the principle was not studied enough and as a result, considering the aspect of value, our import and export product mix suffered losses. Since 1977, the changes in the trading conditions in the world market have been exceedingly disadvantageous to our country, and for high-volume imports comprising over one-half of our imports, there have been very large price increases, such as for grain, cotton, raw sugar, oil, chemical fertilizers, chemical fibers, rubber, etc. Meanwhile, price increases have been small for our exported products in the light, textile, chemical, five mineral, agricultural and sideline product, land and livestock and other

industries. From this year on, exports of large-quantity and highly profitable exports such as petroleum, rice, rosin, tung oil, etc., have decreased (plus the recent large drop in the price of petroleum on the international market), while imports of the high-loss import commodities have increased, furthering even more the loss of profits and the increase of losses.

3. Systematic Factors. This refers to problems of the system due to plans, financial prices, tax revenue and the manggement of goods and materials, affecting profits and losses in foreign trade. At present our planning system for foreign trade, management and financial systems have yet to be integrated into an organic whole. Problems in the disintegration of responsibility, authority, and profits, and eating out of the same pot have not been properly resolved. This has not only caused lower profits and greater losses in foreign trade but also brought forth a series of consequences unfavorable to ordering goods, strengthening accounting by user departments and improving the level of economic management in enterprises.

4. Production Factors. This refers to the fact that our production technology and the productive power of labor affect profits and losses in foreign trade. In the present stage, a comparison of our country to the economically developed nations finds our production technology backward, our labor productivity low, our product quality inferior and unsuited to the market and so unable to sell for a good price. This is one reason for the foreign trade deficit.

5. Economic Management Factors. This refers to the fact that the level of management and administration in foreign trade affects profits and losses. Among economic management factors, the most important is to understand foreign trade pricing. In the international market, commodity prices are constantly ever changing. Whether we import earlier or later, or export earlier or later, or which market to import or export to, whatever marketing channels or arrangements we select, they all are related to understanding the problem of pricing imports and exports. In this regard, there is a relatively large potential for reducing losses and increasing profits in foreign trade. However, for many reasons we have often suffered losses in theaarea of import and export pricing, creating unnecessary losses in our economy. For a long time, we have been short on personnel proficient at foreign trade and our information systems have been backward. Market research, analysis and forecasting have been weak, plus therelis the workstyle of going through official channels, economic accounting has not been strong, etc.

Among economic management factors, foreign trade fund turnover is also a factor affecting profits and losses in foreign trade which cannot be tolerably regarded. In the past several years, due to causes in the system and administration, a situation has arisen in which purchases have exceeded the plan and purchase prices have been forced up, resulting in rising interest payments and other administrative costs and expenditures.

Since foreign trade pricing is a decisive factor in profits in foreign trade, a fundamental measure to cut losses and increase profits is for departments managing foreign trade to understand foreign trade pricing correctly. We must adopt forceful measures and maintain a consensus and unity toward the

outside world. We must take important ports as the starting point, organize unified management for export commodities of the same type and strengthen coordination and administration. These are the premises for understanding import and export pricing.

#### The Relationship Between Profits and Losses in Foreign Trade and Economic Results in Foreign Trade

In theory, profits and losses under socialism are the monetary expression of the economical use of socialist labor, and reflect economic results. Socialist society must utilize the law of value, and labor's relative consumption and production to increase profits, and improve economic results. Thus, profits and losses in foreign trade are important indicators reflecting the economic results of foreign trade. When we examine the economic results of foreign trade departments, besides having to examine the quantity of imports and exports (which reflects fulfillment of the tasks of the import and export plan), the frequency of turnover in circulating funds (which reflects the adequacy of utilizing circulating funds), costs and expenditures and other major indicators, we must earnestly examine related foreign trade profit and loss indicators. For example, we must study the quantity of profits and losses in foreign trade (reflecting the general results of foreign trade management), the rate of profit or loss in exports (the ratio of profit or loss of an export commodity to the quantity exported within a certain period), the rate of profit or loss in imports (the ration of profit or loss of an import commodity to the amount imported within a certain period), the rate of export foreign exchange earnings (the ratio of export cost to the amount of export foreign exchange earnings), and the profit rate on funds (the ratio of foreign trade profits to the funds used in foreign trade).

However, the complexity of factors affecting profits and losses in foreign trade, of which are many changes in profits and losses brought about by these factors, cannot reflect the economic results of that trade. In reality, due to the irrational situation of regular fluctuations in prices in the international market and the domestic pricing of import and export commodities, and constant changes in concerned policies and systems plus the product mix of imports and exports, it is insufficient to evaluate the economic results of foreign trade only by considering profit and loss indices. We cannot generally conclude that when foreign trade profits are great, the economic results of foreign trade are good; or when there are foreign trade losses, the economic results of foreign trade are poor; we must make a concrete analysis. If we want to use profit and loss indices to compare the economic results of foreign trade departments and other economic departments, then only by excluding all changes in external conditions can we use the rate of gain or loss in the original level of profit or loss to make a comparison that is meaningful. If one wanted to assess the economic results of foreign trade departments in different periods according to profit and loss indices, the comparison would be reasonable only once the external factors influencing the situation in the different periods were excluded. In general, profits and losses are important indices to evaluate the economic results of foreign trade, and cannot be tolerably regarded, but at the same time a concrete analysis must be made when using these indices.

In particular, we should see that all that is reflected by profits and losses in foreign trade are the economic results of foreign trade departments, and these are microeconomic results. We should also assess the profit and loss situation from the macroeconomic view, stating in general that macroeconomic results reflected in profits and losses are identical to microeconomic ones. But at times they are not: from the viewpoint of the foreign trade departments, there may be losses and poor economic results, while from the viewpoint of the overall state economy, there may be profits and good economic results, or the opposite. Earlier it was mentioned that foreign trade losses are created due to the irrational distribution between domestic prices, tax revenues and profits, but the state's accounts may still show profits. It has been calculated that our macroeconomic results developed from many years of "letting imports support exports" have been very good, not only increasing our foreign exchange earnings, but also eliminating costs and expenditures, and the state has reaped large financial earnings. But simply from the viewpoint of foreign trade departments, "letting imports support exports" still creates large losses. Such foreign trade losses are called "false losses" on the macroeconomic level. When examining profits and losses in foreign trade, we must analyze microeconomic results as well as macroeconomic ones; both must be given consideration. When contradictions arise between them, macroeconomic results should be given priority. Under the premise of ensuring macroeconomic results, we must also care for the microeconomic results of foreign trade departments. But whenever the losses of a foreign trade department threaten to exceed the loss quota set by the state financial departments, the foreign trade department should adopt administrative measures to limit exports of high loss commodities in order to ensure the state's financial balance and protect the smooth implementation of the state economic plan. However, this is only a temporary measure, because to act thus may bring along some negative influences both domestically and internationally which would be unbenevolent to macroeconomic results in the end.

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FOREIGN TRADE AND INVESTMENT

CHINA TO SET UP PATENT SYSTEM

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 2, 27 Feb 84 pp 3-6

[Article by Huang Kunyi [7806 0981 4135], director general, Patent Bureau of China: "China's Patent System Under Active Preparation"]

[Text] As everyone knows, the patent system is a type of administrative system that is implemented internationally to promote the advancement of technology via legal and economic measures. The system's basic meaning is to award patent rights to inventions that apply for patents, examining and approving them according to patent law, and at the same time, to share applicant inventions with the world to benefit the flow of technological information and the transfer of technological compensation.

In other words, the patent system is a system to administer technology, combining the flow of information and the exchange of value under the protection of the law. The administrative system utilizes legal protection to make public new technology and gives exclusive rights to the inventor (this includes units and individuals) for a specific period of time so as to encourage inventions and creations and to promote the flow of technological information both domestically and internationally.

Here, I would like briefly to introduce the preparations for China's patent system and the main components of China's patent law (draft). In addition, I would also like briefly to introduce the proposals and tentative plans for China's patent work.

In 1950, our country promulgated the "Provisional Regulations to Safeguard Invention and Patent Rights," which were abolished in 1963. Thereafter, no patent laws or regulations were ever formulated.

Why does our country now want to set up a patent system as soon as possible? We hold that the patent system was produced and developed under historical conditions whereby the fruits of technological inventions have become wealth and commodities. These fruits are the result of labor. They have the attributes of commodity value and use value. Set within the fruits of technological inventions is the inventor's creative mental labor. In many cases, form is also given to experimental research instruments and equipment, experimental materials and other physicochemical labor and to a certain amount of auxiliary

physical labor, but the creative mental labor is decisive. Applied to production, the fruits of technological inventions can turn into productive forces and engender economic, technological and social effects. Thus, it is very natural to protect these fruits that are regarded as wealth. Our country's fundamental theoretical basis in setting up a patent system is that commodity production and exchange still exist under socialism; such production and exchange, the fruits of technological inventions, should be greatly developed as required to build socialist modernization.

In preparing the patent system, China has sent observation groups to visit certain countries and conduct investigations and studies. In March, 1979, drafting began on the patent law. In February, 1980, following approval from the State Council, the Patent Bureau of China was founded to set up a patent system. On 24 September 1982, a meeting of the Standing Committee of the State Council made another resolution to implement a patent system in our country.

The present patent law (draft) has been submitted to the Standing Committee of the National People's Congress by the State Council and is being deliberated right now.

So that it can sufficiently and effectively promote our country's technological advancement, the general principle in formulating our patent law is that it be both suited to our country's national conditions and that it give consideration to current international practices. There are two main points to our national conditions. First, our country is socialist. Second, it is developing. Our country's patent system can be effective only once consideration is given to these two characteristics.

The main components of our country's patent law (draft) follow.

#### I. Concerning Patent Rights

The question of patent rights is at the core of the patent law. The major task for the patent law in China, a socialist country as it is, is to handle property rights concerns for the state, collectives and individuals.

The draft prescribes that authority to apply for and receive patent rights for inventions and creations arising from work in a unit or for those created using materials from a unit belongs to the unit. Authority to apply for and receive patent rights belongs to the inventor or designer except in the aforementioned cases. The draft further prescribes that patent rights for units owned by the whole people are not monopolistic; these units cannot refuse the use of their patented technology to other units owned by the whole people. However, they have a right to just compensation. Once any unit obtains patent rights, it should give awards or compensation to individuals who made the technological invention. In this way, consideration will be given to benefiting the state, the collective and the individual, so that the initiative of all three can be mobilized.

## II. Concerning the Aims of Patent Protection

The draft prescribes three aims of patent protection. (1) Inventions, referring to plans for solving technological questions. These are most important. (2) Practical new patterns, referring to minor inventions at a rather slow level of technology. Considering that our country has relatively many medium and small enterprises and that their levels of technology and industry are rather low, the use of patents to protect practical new patterns is intended to mobilize the zeal of the populace to be technologically innovative. (3) External designs, referring to the external appearance of ornamentation or artistry on industrial products. Patent protection for external designs in our country will benefit the improvement of styles, patterns and colors of goods, and will strengthen the competitiveness of our exports.

## III. Concerning Technological Areas Not To Be Awarded Patent Protection

The draft prescribes that the main inventions protected by patent are new products and new manufacturing methods. It does not protect scientific expressions or principles, computer programs or methods for diagnosing or treating illnesses. Important research achievements in these areas can be rewarded and protected by the "Regulations for Natural Science Awards" and other relevant rules and regulations already promulgated by China. Concerning varieties of animals and plants, departments concerned in our country will draft a seed law to protect and manage them. We will not grant patents for materials obtained via nuclear transformation. Many developing countries do not grant patents to foods, drinks and medicines concerning the people's health since materials obtained by chemical methods involve a wide range of things and their influence is rather great. Right now our country's industry and scientific and technological levels are rather backward in these few areas and we lack experience in patent work. It is quite safe not to grant patents for these products in the near future. However, methods of production for these products can still be patented. The technological areas to be patented will gradually be broadened once a period of time has elapsed, and after consideration of actual situations.

Inventions that transgress state laws and social morality or jeopardize the public interest or public health of course will not be protected.

## IV. Concerning Time Extensions for Novel Inventions Published at Academic Conferences

The draft prescribes that inventions seeking patents must be novel at the time of application. Thus, in order to preserve the novelty of his invention prior to applying, the inventor must maintain secrecy. This is obviously detrimental to promoting the flow and advancement of technology. To remedy this deficiency, in addition to taking into consideration international practices, the draft prescribes that inventions published for the first time in stipulated academic or technological conferences 6 months prior to the date of application shall be recognized as not having forfeited their novelty.

## V. Concerning the Examination System

Adoption of a substantive examination system is one important sign of the patent system's modernization. It is also an important measure to ensure patent quality. The draft prescribes that patent rights will be awarded only to applications for inventions that adopt methods of early public announcement, substantive examinations and mass criticism and combining examinations by specialists with mass criticism, and that conform to patent conditions (namely, novel, creative and practical). A registration system and a rather simple examination method are planned for practical new patterns and exterior designs, since the number of applicants might be rather large as the technological level is relatively low.

## VI. Concerning Time Limits on Patent Rights

Our country plans to set the time limit at 15 years from the date of application for patent rights on inventions and at 5 years for practical new patterns and exterior designs. These can be extended for 3 additional years upon expiration if necessary.

## VII. Concerning Patent Protection for Foreigners

Our country is prepared to grant and receive patent applications from foreigners on the condition that a treaty has been signed between the country to which the applicant belongs and our country, or that our people are permitted to apply for patents in their country on the basis of the principle of reciprocity. Under this premise, our country will give foreigners identical treatment to that of our citizens pertaining to patent matters in accordance with international practices. As for foreign applications, we will give patent protection to qualified items according to an item-by-item examination of patent laws and regulations. To implement their inventions, foreign patent holders can use their rights as partial investment in joint investment ventures with our country or have their patent licenses sold to our country's enterprises. These will of course be determined on the basis of our country's needs and possibilities.

Setting up a patent system requires building a new administrative system that is related to the reform of work in various departments and regions. A patent system cannot be set up without a patent work framework. We have tentatively formulated a draft for our country's patent work framework on the basis of extensive investigative research domestically and abroad. For the most part, this framework encompasses the following work.

### 1. Legal Work

It was said above that the patent law has been passed by the State Council to the Standing Committee of the National People's Congress for deliberation. Once the law is promulgated, we must strive to have it passed as quickly as possible by the State Council, and to have published the detailed and other relevant rules and regulations for implementing the law. The detailed implementing rules and regulations of the patent law and the examination regulations

are beginning to be drafted. Opinions are now being extensively solicited for further revisions.

The major tasks of the Patent Bureau of China are to implement the patent law and to be responsible for accepting and hearing patent applicant cases, making examinations and awarding patent rights. The Bureau now has 480 personnel; of these, 157 future examination personnel have been sent to set up offices, a department for coordinated planning, a department of patent implementation, a department of international cooperation, examination offices 1-5, document service centers, patent document publishers and other organs. Patent Bureau personnel are excitedly studying and being trained. Since 1979, our country has successively sent 13 groups of 110 people to Japan, the FRG, the United States, England, Canada, Australia and many other countries and international patent organizations to study patent laws, patent examinations, the handling of patent affairs, patent documents and other business. We have also invited specialists from many countries and international organizations to China to give lecture courses on patent law, patent examinations, patent agents, patent documents, trade licenses, etc.

Patent disputes and lawsuits are to be handled by the law courts. Our country's judicial departments are actively preparing and earnestly studying industrial property rules and regulations, and have begun training specialists.

We should have patent agencies and patent lawyers in order to try patent cases and handle lawsuits. We must set up patent agencies on a national scale. One possibly good method is the combined patent document and agent services to be set up in the patent service centers of some provinces, cities and departments. Foreigners coming to our country and our people applying for patents abroad will be the responsibility of an agency designated by the state, currently the China Council for the Promotion of International Trade, which is making active preparations.

## 2. Administrative Work for Patented Technology

Promoting inventive and creative activities is the goal and the basis of patent work. Patent work becomes a tree without roots, or a stream without a source if there is not a great amount of such activity. Therefore, we consider the promotion of inventive and creative activities an important component of patent work.

Once a creation or invention is completed, the possibility and necessity for patent application must be determined. Once application is made, it must be administered. After approval has been granted, organization is necessary to implement it, requiring the formulation of a draft that combines plans for research, technological transformation, capital construction, etc. These must be well organized and administered. The work of preparing for patent administrative departments has already begun in many provinces, municipalities and departments in coordination with the systematic reform of organs; it must be completed next year and continuously perfected hereafter.

### 3. Patent Document Services Work

At present the Patent Bureau of China has collected nearly 20 million patent documents. Although various provinces, municipalities and departments have collected a certain number of them, no network has been formed, information does not flow smoothly, nor is it complete. Retrieval tools are backward and the usage rate low. Although there have been certain results, a great need still remains to further strengthen and fully develop their use. We have determined five principles for setting up a Chinese patent document services network.

- (1) Sinification, mainly to translate and edit patent manuals as Chinese digests, and to start up a Chinese-character data base.
- (2) Systemization, to classify, transmit and unify standards and formats. In addition to the patent document service centers, China will also set up a certain number of branch centers, specialized branch centers and document services places.
- (3) Specialization, to strengthen the establishment of specialized files. An IPC storage facilities is now being set up.
- (4) Miniaturization, to use either roll film or disks and study other high-density storage methods.
- (5) Computerization. Further investigations and a proposal must be made, starting from a Chinese-character data base for patent matters.

We have received help from friends in various countries in setting up a Chinese patent document services network. We hope to continue cooperating with new and old friends and allowing greater contributions to technological and economic development from patent documents, this treasure house of human technological knowledge.

### 4. Licensed Trade Work

Licensed trade will develop simultaneously in the wake of setting up a patent system. We have been engaging in licensed trade with foreigners for many years. After implementing the open policy, our country will import advanced foreign technology more vigorously to serve the four modernizations. The volume of international licensed trade will continuously increase. In pace with the reform of our country's system, the autonomy of enterprises has expanded, domestic technology markets are being formed and their roles and advantages are being understood day by day. We still lack experience in this respect. We must unceasingly study and we need coordination, advisory and guidance organs. We must also formulate certain administrative rules and regulations.

## 5. Patent Education, Research and Scholarly Exchange Work

The exchange of patent work experience, the dissemination of patent knowledge and the fostering of talent to engage in patent work are very important to setting up and developing a patent system. This year we did a lot of work in these areas and the results are rather good. According to incomplete statistics, in 1983 over 20 newspapers, magazines and radio stations carried articles on patents at over 1.5 million [Chinese] characters. Thirteen patent books were published, estimated at 200,000 volumes. Various types of patent classes were held, attended by over 10,000 people. More than 10 universities ran patent lecture courses or held formal courses. Over 4,000 people participated in patent correspondence classes. From now on, patent classes will gradually develop from these on basic understanding at present into specialized courses. The patent agent, patent classification and retrieval project classes being held will gradually evolve from the present, temporary short-term ones into formal patent departments and divisions at universities concerned to foster patent talent in a planned and systematic way. At the same time, we also must run patent correspondence courses, which are important channels for utilizing self-study to foster patent talents.

We should analyze the essence of the patent system, the historical categories for its emergence and development as well as its characteristics under socialism, etc., from our theories and standpoint, highly regarding theoretical research on the patent system to set up a functionally good system. We are attempting to make every effort to have correct theories and ideology guide our preparations for summarizing experience, seeking patterns and upgrading our understanding. In certain places, we have already set up industrial property-rights study societies that are mass organizations.

Our country's establishment of the patent system really is the establishment of a new type of administrative system. It encompasses much work and touches upon a broad range of things. We want to set up a patent system with a spirit of innovation that really has Chinese characteristics, and gradually perfect it, bringing into play its tremendous role in promoting the progress of science and technology.

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FOREIGN TRADE AND INVESTMENT

BRIEFS

SHANGHAI IMPROVES HOTELS--Shanghai, 23 July (XINHUA)--Shanghai is taking steps to improve and enlarge hotel facilities to cope with a big growth in tourism. Shanghai, China's largest industrial and commercial center, has 15 hotels offering 4,000 beds. This is far short of the number needed, especially in busy seasons, say municipal tourism officials. Efforts taken this year to alleviate the problem include: Construction of seven small and medium-sized hotels with about 1,000 beds in scenic suburbs, with part of the investment coming from local peasants. These are expected to be completed next year. Renovation of some of the rooms in the Jinjiang, Shanghai, Heping and Jingan large hotels by Hong Kong firms. Agreements signed between the city and a Hong Kong and two American firms for the joint construction of three delux hotels with more than 1,700 rooms. In addition, a large hotel with 1,000 bedrooms is under construction and is expected to be completed by 1986. Almost a quarter of a million tourists from foreign countries, Hong Kong and Macao visited Shanghai in the first 6 months of this year, a 23.6 percent increase over the same period of last year, the officials said. [Text] [OW231438 Beijing XINHUA in English 0631 GMT 23 Jul 84]

CSO: 4020/172

TRANSPORTATION

BRIEFS

INLAND RIVER SHIPPING--Changsha, 3 August (XINHUA)--Hunan has allocated 7,000,000 yuan this year to improve its inland waterways as a method of easing transport problems in the central Chinese Province. The project, designed to double shipping capacity from the present 4,000,000 tons a year, involves dredging and building port facilities along 359 kilometers of the Lishui and Xiangjiang rivers--two of the four major river systems in the province. Hunan imports millions of tons of coal from other parts of the country every year, overloading railway freight capacity. Improved waterway transport will carry the coal to central parts of the province. China has 50,000 rivers, and is making efforts to open more inland shipping services to meet growing demands. [Text] [OW032329 Beijing XINHUA in English 1218 GMT 3 Aug 84]

SHIP FOR HONG KONG FIRM--Guangzhou, 31 July (XINHUA)--A 18,000-ton bulk carrier, ordered by a Hong Kong firm, was launched at the Guangzhou shipyard here today. The "General Mojica," 158 meters long and 22 meters wide, was ordered by Hong Kong's Wheelock Marine Services Limited. The vessel is fitted with such advanced facilities as satellite navigation equipment and has a speed of 12 nautical miles per hour. It is considered to be up to top international standards, a plant official said. [Text] [OW311934 Beijing XINHUA in English 1637 GMT 31 Jul 84]

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CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

HUNGARY'S PEASANTS FLOWING BACK TO COUNTRYSIDE

HK261019 Beijing RENMIN RIBAO in Chinese 22 Jun 84 p 6

[Article by Wang Yi [3769 2253], Li Shuhua [2621 3219 5478], and Fan Jingyi [5400 2417 1355]: "Talking About 'Backward Flow' Along the Danube--Notes on visit to Hungary"]

[Text] In a television program, "News Background," Broadcast on the evening of 10 May, the Budapest television station used the case of qie pei er [0434 0160 1422] machinery factory to illustrate the recent phenomenon of large numbers of industrial laborers flowing back from urban areas to rural areas in present-day Hungary. Staff at the factory have been reduced by 50 percent as compared with the 1970's, whereas the number of agricultural laborers on the outskirts of Budapest has increased by more than 10,000 in the past 2 years. The television program loudly called for a prompt solution to this problem, which was becoming more and more serious.

As "News Background" usually discusses social issues which draw extensive public attention during a particular period, the issue of "backward flow" attacted our attention. We have discussed this problem extensively with people of all circles we have been in contact with in our trip along the Danube and the Tisza.

It appears that the case reported by the television program is genuine. Large-scale industry attracted large numbers of agricultural labors in the 1950's and many peasants spontaneously moved to urban areas later, as agriculture was declining. In the 1960's, there were two million peasants living in cities. However, the situation today has changed. As a result of the implementation of the new rural economic policy, the peasants are getting richer and richer, and the distinction between town and country and between industry and agriculture is being reduced. We found in the county of Baranya that the real income of some peasants there was more than double the average salary of workers. In addition, the intensity of labor in agricultural production is now lower than that in factories. Moreover, in the countryside, peasants can own better-looking and more comfortable houses than they can have in town. This is really attractive to workers of peasant origin.

This is a really new problem arising since rural areas have got rich! And the opinions on this problem are varied.

The comrades of the industrial sector hold that this is a very serious problem. It is necessary to take various emergency measures, ranging from the improvement of the salary system, with the aim of raising the salaries of workers in urban areas, to the distribution of private plots of land to the staff and workers of cooperative-run enterprises, the practice of allowing factory workers to do part-time jobs and engage in the operation of cooperative labor groups as a means to make more money, and so on. They think that industrial enterprises will not be able to secure sufficient labor force otherwise.

However, the agricultural sector holds an absolutely opposite view. An agronomist of an agricultural production cooperative on the bank of the Tisza hailed the phenomenon of backward flow: "Ah, thank God! All of them have come back now." Fu Er De Wa Li Ya No Shi [4395 1422 1795 3907 6849 0068 6179 0087], deputy speaker of the Baranya County assembly, held that backward flow was a normal phenomenon which showed the great achievements of agricultural production cooperatives and the valuable role of the private-plot policy in meeting the needs of the people in town and country. Citing an example, he pointed out: There was a serious shortage of meat and milk in the country in 1960's. Now, every person in the county produces 220 kg of pork and consumes 77 kg a year on average. And the annual milk output of each milk cow also increased from 1,900 liters to 4,600 liters. Apart from meeting local demand, a great quantity of meat and milk is exported. This gray-headed veteran fighter against fascism also regarded flowing backward as a spur to enterprises in cities. Since the labor force is insufficient, these enterprises will be forced to improve management, renew technology and raise labor productivity. He said: "If we refuse to carry out reform and improve the workers' working and living conditions, we should not blame them for quitting!"

Another opinion holds that only those units with poor production management are faced with the problem of backward flow. Ma Ga Shi Yue Ka Qing [7456 0595 0087 4766 0595 1906], general manager of the Budapest machine tool plant, pointed out that it was because of its relatively poor management that the Qie Pei Er machine factory failed to attract workers: "While in our plant, such a problem absolutely does not exist, since our workers are getting more pay as a result of our efficient management."

Which of the above views is closer to reality? In an interview with Ao Er Ma Xi Yi Si Te Wan [1159 1422 7456 1585 0122 2448 3676 8001], director of the information department of the Hungarian Ministry of Agriculture and Food, we put this question to him. Shrugging his shoulders and smiling, he said: "To be sure, your question is rather complicated. The phenomenon of backward flow is abnormal in the case of the Qie Pei Er machinery factory, which possesses modern equipment but lacks sufficient labor. However, from the standpoint of rural areas, backward flow is a normal phenomenon, since the factory with advanced equipment fails to produce what the peasants badly need, while their laborers who leave, with old equipment cooperative-run industrial enterprises, manage to produce what is well-received by the peasants. In addition, the peasants think that these laborers originally belong to rural areas. Why should they be driven to work in a factory some 100 km away?" In his opinion, such a phenomenon of backward flow has a dual effect: negatively speaking, it results in insufficient labor force in factories; positively speaking, it may

promote competition. And, in particular, the staff of service trades should be increased considerably in light of the trend of social development. The labor force flowing back to rural areas has mostly been attracted to service trades.... Allowing the labor force to flow within a small scope will be advantageous to the forming of a flexible production setup.

Perhaps Ao Er Ma Xi Yi Si Te Wan had a relatively comprehensive perspective. Anyway, it seems that this complicated debate will carry on for a rather long period before reaching a settlement.

On the trip to discover the causes and effects of the debate, we thought about China. Certainly, the case of China is quite different from that of Hungary, and our rural areas have just begun to become rich. The situation of backward flow facing Hungary has not yet emerged, or perhaps never will emerge, in China. However, the observation of this debate may be of significance, since it can enhance our understanding of the urgent need for stepping up urban reform and remind us of a fact: It is absolutely necessary to carry out urban reform as soon as the structural reform in rural areas is basically completed, otherwise unexpected problems may emerge.

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END